

## Encouraging Entrepreneurship through Franchising

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### ABSTRACT

*Entrepreneurship is an act of undertaking innovations or introducing new things, finance and business insights, in an effort to transform those innovations into economic goods. In India, entrepreneurship is primarily considered as starting a new business. It comes with a sense of innate freedom and creativity but is followed by an inherent set of risks. Starting a business has long been considered a risky proposition. Just the potential for failure and loss discourages many would-be entrepreneurs from giving it a go. This is where franchising comes to the rescue. Franchises are wise as they come on board after the parent company has made all the major mistakes that will come with their new idea. Doing so, franchisees reduce their risk. Further, investing on a proven business model also paves the way for economic growth, employment growth, and export income fuelling activity in the small and medium enterprise (SME) sector. This report will provide an insight on how franchising can act as a pathway to entrepreneurship and the creation of wealth.*

### I. ENTREPRENEURSHIP IN INDIA

Entrepreneurship has been on the rise as a global phenomenon much before India became serious towards the development of entrepreneurship. In India, entrepreneurship is dated way back from the pre-colonial era. Indian trade and business was at its peak. Indians were experts in smelting of metals such as brass and tin. Kanishka Empire in the 1st century started nurturing Indian entrepreneurs and traders.

Following that period, in around 1600 A.D., India established its trade relationship with the Roman Empire. Gold was pouring from all sides. But, after the entrance of the Portuguese and the English into the Indian sea waters and the Indian business, they forced the entrepreneurs to become traders while they took over as entrepreneurs.

Gradually, after being annexed by the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth century, India acquired independence in 1947 after a tremendous struggle. It emerged as the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 may have transformed it into one of the fastest growing economies but unfortunately, it still suffers from high levels of poverty, illiteracy, and malnutrition. Above all, unemployment is the main problem that our country faces now. In this situation it is necessary to become familiar with the multi-dimensional aspects of Entrepreneurship. Interestingly, after the first Industrial policy resolution of 1948, the small scale sector, which later came to be known as 'the breeding ground of indigenous entrepreneurship', has been promoted and nurtured for its potential for addressing the larger developmental concerns. In spite of the domineering presence of large and medium enterprises in the economy, it is the small sector that has always dominated the inquiries into Indian entrepreneurship.

The reason could well be that it is in the small enterprise that the presence of the entrepreneur is the most visible.

In a country like India which is vast, diverse and still on the stairs of development, small enterprises have a very definite role to play not only by contributing towards employment and income generation, but also in attending to the specific needs of a large proportion of customers. More importantly, the small scale sector has helped widen the entrepreneurial base by giving rise to a new class of entrepreneurs from the ranks of employees, business executive, technicians and professionals.

Presently, the awareness towards the path of entrepreneurship is picking up at a quick pace and is now growing at par excellence with the rest of the Asian countries. Following the global economic crisis, India had also been feeling the heat like the rest of the world which led to a fate of downsizing for many. Despite its sizeable youth population, it is being feared that the economy may not produce enough jobs to absorb the fast-growing labour force, leaving millions of young people feeling bitter and betrayed. To make matters worse, a recent Gallup study found that Indians are simultaneously the least and the most entrepreneurial people in Asia, with many Indian youths possessing strong entrepreneurial traits, though few actually wanted to start their own businesses. The reason being, till nearly the beginning of the last decade, Indian Economy was highly regulated and as such, setting up a new venture was directly related to how much capital one had.

The previous generation of Indian grew up in the 60s and 70s where getting a stable high-paying job was prized much more than doing a start-up. The youth at present is naturally a little skeptical of setting up a start-up venture. Moreover in India, failure is looked down upon, whereas start-ups fail a majority of times. Till 2005, there weren't too many inspirational figures of

entrepreneurs who made it big without much capital. But soon after the entry of Mukesh Ambani, Anil Ambani, Azim Premji, Adi Godrej, Lakshmi Mittal and Pallonji Mistry on the list of successful entrepreneurs, the youth started rising from their slumber. The start-up decision or the business ideas that were plaguing the minds suddenly came in the limelight and proved to be the right opportunity and time to realize that business idea. Moreover, now franchising form of business has also come to the rescue, emerging as a trustworthy solution to this problem.

## **II. OBSERVING ENTREPRENEURIAL UNDERSTANDING IN FRANCHISING**

The concept of franchising is closely intertwined with entrepreneurship. Today, a person with a start-up business is not the only one to be called as an entrepreneur. A franchisee getting the rights to an established business model for a specific time period and in a specific geographic area can also be termed as an entrepreneur. Franchising is, at its core, an entrepreneurial alliance between two organizations, the franchisor and the franchisee. Therefore, notwithstanding the slow but significant change in the thought process of young adults today, institutes and colleges are now encouraging students by way of introducing entrepreneurial courses and subjects into their curriculum.

## **III. ADVANTAGES AND STRENGTHS OF A FRANCHISE BASED BUSINESS MODEL**

As a business structure, a franchise can certainly be an appealing option. With a number of advantages, it is often the choice of those looking to start a new business without the risks associated with going out on their own.

1. **Power of a collective Brand** - A franchise offers the advantage of operating under the banner of an already established business. With an established brand name, a franchisee is buying in to a company that already has some recognition. With the opening of more and more franchises, the benefits of this name recognition increase. This subsequently leads to greater competitive advantage for the franchise owners, who benefit from the collective power of the brand name. The more recognized a brand name, the more consumers will gain trust in it. A start-up business venture will need many years to develop and build this kind of recognition and customer loyalty.
2. **Greater sense of Security** - Buying a franchise is often a more secure business decision because a major part of the work is done by the franchisor. The business is already a tried and proven one that has a base already in place. This means that for a franchisee, the main focus will be on following the model to see it through to success. While this certainly isn't easy either, it does eliminate the risk-factor inherent in the trial and error process of developing your own business from the ground up.
3. **Guaranteed Territory** - In most cases, a franchise's parent company will guarantee a predetermined territory to the franchisee and assist them in succeeding within that region. Territories vary depending on the company one is working with, but not having to compete with another franchise location from the same company in the given territory can help generate revenue.
4. **Easy Business Financing** - For a franchise, acquiring business finance is generally easier. Investors are far more willing to invest in a business with an established network, secure brand and effective support structure. In some instances, finance may be acquired from the franchisor, making life even simpler for the new business.
5. **Easy Business Relationships** - A franchisee can take advantage of the numerous business relationships already established by the franchisor. For instance, relationships with suppliers and perhaps distributors will already be in place and easy to manage.
6. **System Oriented model** - A franchise differs from other businesses as it follows an exact business model and plan in all of its branches. Thus, a franchisee would have less work to do in establishing a business plan, thereby following a plan with systems and rules in place. In many cases, a franchisee will receive training and help with the management and marketing. The franchise will reap the benefit of the parent company's marketing campaigns and strategies.
7. **Being Collaborative** - Similar to being system oriented, the best franchisees are those who can collaborate and work effectively with others. This type of collaboration is often unnecessary in the beginning of a start-up as much of the work is done independently and there are only few people to work with and/or report to. However, in a franchise system, a franchise owner will have to collaborate with others to ensure the success of its team and the company. There is great earning potential in the franchise business and many would do well to take advantage of such an opportunity.

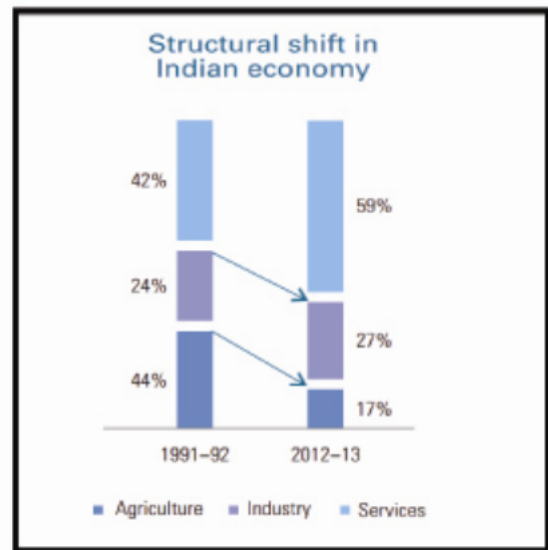
### IV.VARIOUS SECTORS INVOLVED IN FRANCHISING MODEL OF BUSINESS

The franchising model of business is swiftly gaining exposure in India because of its ability to provide instant growth to businesses, at all level. Since liberalization, the Indian economy has witnessed steady evolution. The macro statistics reveal that agriculture is no longer the chief contributor to the Indian economy. Consequently, retail and service sectors are expected to play a major role. The country is gradually heading towards being a manufacturing and service based economy in the last two decades. This growth has given momentum to a huge entrepreneurial appetite.

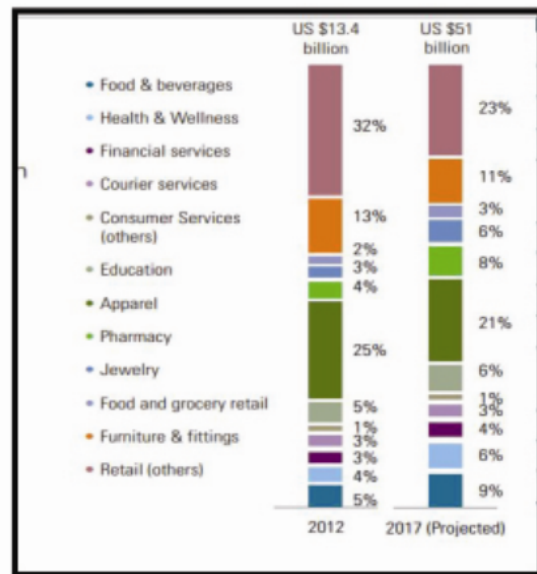
Over the last decade, franchising has surfaced as one of the most prolific and feasible ways of expanding businesses in India. Several industry verticals such as food and beverage, education, fashion, tourism and hospitality are leveraging their growth by franchising their products under various formats. India is home to more than 3,000 brands that use the franchise model. Bata was among the first franchisors in India. KPMG mentions that franchising is expected to continue to be one of the most popular business formats among organised retailers, especially to reach the tier II and III cities. The key industries that possess high prospects for the successful franchise opportunities in India are Retail franchising, Food and beverages, Health, beauty and wellness, Consumer services and Education and training. The individual growth and potential of these industries are driving the growth of the overall franchise sector in India.

Thus, with a variety of sectors opening opportunity gates of franchising, entrepreneurial talent in young minds is getting an exciting platform to explore. It is perhaps boosting the earning capabilities of youth in India, helping them to get independent with their own ideas and skills. As per the estimates by KPMG India, the franchising industry is expected to quadruple between 2012 and 2017. There is scope for franchising industry to contribute almost 4% of India GDP in 2017, growing from a current estimated contribution of 1.4 percent of GDP. This is also expected to create job opportunities for an additional 11 million people by 2017.

Key assumption: KPMG in India has considered the sectors of Retail, Food Service, Health & Wellness, Education, Consumer Services and other niche areas while estimating the franchising potential in India.



[Source: Centre for Monitoring Indian Economy (CMIE), Ministry of Statistics and Programming Implementation (MOSPI)]



(Source: KPMG India Estimates)



Franchise revenues growth - 30.2%  
 No. of franchise outlets growth - 30%  
 (Source: Source: KPMG India Analysis)

## V. CONCLUSION

The definition of entrepreneurship has evolved over time as the world's economic structure has changed and become more complex. India needs an eco-system that encourages more and more mid-level enterprises to create more jobs, employing about 100-300 persons. The country's knowledge-based economy is a fertile ground for entrepreneurs. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs. Further, India today does not have any franchising specific laws; however various generic Indian laws such as Competition laws, Indian Contract Act etc are applicable on franchising operations. Any future consolidation with formulation of franchise specific regulations in this area should allow conducive growth of franchise systems along with protection of franchisee rights. Government should play a key role in supporting all the franchise industry stakeholders including franchisors, franchisees, financial institution, banks and industry associations. It should support public agencies and financial institutions to improve laws and promote franchising. It should encourage banks and financial institutions to increase financial incentives to support innovative franchise models in India. Changing dynamics in franchising industry would warrant a change in mindset as well. Thus, a collaborative approach involving Franchisees, Franchisors, Financial institutions and industry associations is the need of the hour.

## REFERENCES

- [1] Centre for Monitoring Indian Economy (CMIE) year 2012-13.
- [2] Ministry of Statistics and Programming Implementation (MOSPI) year 2012-13.
- [3] KPMG India Estimates year 2012.
- [4] KPMG India Analysis year 2012.