

To Study the Profitability, Challenges, and Operational Limitations of Small-Scale and Low Budget Franchise Module in Business Management to Understand Innovative Techniques to Implement

Gauri Shah*, Rasika Gumaste**, Kiran Shende***, Rina Dongre****

Abstract

The purpose of this study is to find out the challenges and operational hurdles faced by franchise owners and profitability of any small-scale franchise Module. The goal of this research work is to identify the issues a prospective franchisee must be aware of to successfully manage the operations and be ready to implement innovative strategies for better profitability. The information for this research is gathered from literature, the Internet and by collecting the responses through specially crafted questionnaire, small-scale franchise owners from Pune of Kekiz, MacDonald, Sujata Mastani, Amruttulya Chaha and many more local brands. The empirical data for this study is collected from the representatives by doing a survey in questionnaire form. The outcome of this study indicates mainly the same issues that were expected to be found. These involve propositions concerning allocation of tasks to encounter the prospective challenges and converting the weaknesses into strengths of the outlets, free-riding problems, uniformity of products, transfer of knowledge and local advertising practices.

This research concludes that anticipating the challenges and applying innovative promotional strategies to overcome the issues help in improving the profitability of any small-scale franchise outlet.

Keywords: Franchisor, Franchisee, Development, Fast-Food Industry, Problem, Economies of Scale

INTRODUCTION

In today's world, adopting to newer trends is essential since the world is changing rapidly. One must keep up with the social conditions and changing markets at a constant rate. Newer trends such as franchising are extremely popular in our country, but the 1st franchise of Nirula foods opened around 1977. Since then, as India was opened to the world in 1991 due to globalization, and foreign companies like McDonalds and Dominos entered the Indian market, increasing the overall competition. The decision making of establishing a good franchising company has a lot of issues. These issues have been well depicted in the movie, The Founder, which gives a particularly good sense of business strategies that are used to dominate the current economy. But after all, everything depends on consumers perception, hence, as we say, the customer knows everything is so true. Now a days, consumers expectations increased, these fast-food chains must keep up with this increasing demand to stay in the business. This competition has emerged a lot of problems and these have been discussed in the report below. Before moving forward to these issues, let us know how exactly the franchising system operates and how people make profits off it. Starting a food business is one step. But building a recognizable brand name that attracts customers everywhere takes years of work. If one

* Associate Professor, AISSMS College of HMCT, Pune, Maharashtra, India.
Email: gauristars@gmail.com

** Associate Professor, AISSMS College of HMCT, Pune, Maharashtra, India.

*** Associate Professor, AISSMS College of HMCT, Pune, Maharashtra, India.

**** Assistant Professor, AISSMS College of HMCT, Pune, Maharashtra, India.

is looking to enter the restaurant industry, franchising might be a logical option to start with. It accelerates the journey by attaching a well-known brand name. Now, an important question one might ask is “Is franchising profitable business in India”? According to Restaurant India, the Indian franchising industry is estimated at \$24 billion with an expectation to reach \$35 billion by 2020. So, this business has a lot of possibility for growth, and a lot of chance to capture the market share. Let us begin by understanding how does a franchise business model work. The basic franchising terminology:

Franchisee: The entity that purchases the rights to the business and runs its day-to-day operations.

Franchisor: The entity that owns the intellectual property.

Franchise: Granting rights for another entity to use your name, recipes, look & feel, trademarks to conduct business. Entering into a franchise agreement means that you – The franchisee – purchase the right to sell goods or services using the franchisor’s trademark or trade name for a specified period. While there are different franchise models followed by different brands, the core concept is: investors pay a franchise fee to unlock access to a brand. Everything from menu items to design and layout is carefully prescribed, and franchisees are expected to follow the given protocol. Doing so ensures the brand is easily recognizable and brings in business from 1st Day.

Significance of the Study: This research intends to study the operational limitations and challenges faced by franchisors and franchise holder. This study also proves that there is a lot of potential for this type of franchise outlets as there is competition and more customers waiting to try out new concepts in the real world.

OBJECTIVES

- To study the profitability in small franchise outlet.
- To analyse various challenges faced by the franchise holder.
- Limitations for a small-scale franchise module.

LITERATURE REVIEW

- The Advantages of Starting a Fast-Food Franchise in India | June 2, 2019, | Karan Makan Generally, India has demonstrated to be exceptionally seri-

ous but then, a persistently blossoming market for the cheap food industry. With an economy as quick paced as India’s, it is nothing unexpected that significant universal F&B brands are for the most part developing to the requirements of the Indian customer and attempting to best tap and extend a lot of the Indian market.

- Franchising as a model for business expansion in foodservice | April 2019 | Food service India bureau in food service, retail hub Establishment is a business opportunity that can prompt the establishment of a fruitful business domain. It is an advertising idea embraced by organizations for business extension. An Establishment is commonly an individual or an organization that is given the permit to maintain a business under the Franchisor’s image name, trademarked by the Franchisor.
- Advantages and Disadvantages of Owning a Restaurant Franchise | June 2018 | Webstaurant Store | Venturing into the profoundly serious eatery industry can be both exciting and scary to new establishment proprietors. Having the option to see the advantages, prizes, and potential disappointments will enable imminent proprietors to choose whether opening an eatery establishment is the correct choice for them.
- The effects of management and environmental factors on franchise continuity | 25 April 2017 | Ekonomiska Istraživanja This study has uncovered the apparent nature of signs and the basic and inconspicuous limit of the establishment and the market. The principal discoveries are in the feeling of having distinguished the quality signals that channel dependably anticipated the coherence of the establishment business design.
- Franchised fast-food brands: An empirical study of factors influencing growth | 31st March 2017 | Christopher A Wingrove | Boris Urban The motivation behind this study was to experimentally inspect the influence of site area and brand factors on income development across diversified food brands. The investigation supplements built up writing by including diversifying specific bits of knowledge from the purchasers’ perspective.
- Study of the viability of franchising business models | July 2016 | Porwal | Mihir Suresh to generate

a Franchisee as a buying guide for any random person who wishes to start or buy a new franchise. Researcher has generated a handy franchisee buying information and ideas which shall be an efficient method for new franchisee buyers to take a conscious take over and consider successful or failure points and considerations before entering to a franchisee deal with franchisor.

- Franchising as a Tool for Small and Medium Business Development | Sep 2015 | Zhaniya Jumadildayeva | Maira Uspanova the standards of the game in the worldwide market are currently dictated by nations overall, with the definitive job of the World Exchange Association (WTO), which joins 150 nations and covers over 95% world exchange turnover.
- Challenges and Opportunities of Multi-unit Franchising in Fast-food Industry. | Thesis 2014 | Alexey Nabatov This study has researched the idea of multi-unit diversifying from the franchisee point of view. It concentrated on overseeing inexpensive food outlets under a territory advancement understanding. First the paper presented the advantages and what is more, requirements that influence a franchisee's decision of this sort of possession and proceeded with difficulties and openings.
- Significance of franchising to business growth and expansion | 21 December 2007 | Vinod Chawla the impact of diversifying in money related improvement and progression all around is a goal and it has contributed enormously to the vitality of various economies generally since its starting point. A part of the impact consolidates the capital stream on account of the diversifying practices in the economy, evaluation paid to the government through diversifying works out, the trade works out, livelihood time.
- Factors for New Franchise Success | 15 April 1998 | Scott Shane | Chester Spell | Our examination discoveries recommend that potential franchisees ought to painstakingly explore new franchisors before contributing. The normal new establishment framework toward the starting will come up short. Luckily, our examination gives criteria to choosing another establishment framework that is bound to prevail than the normal framework.

RESEARCH METHODOLOGY

Scope of the Study to study the working procedure of a small-scale franchise module. Also, to find out about the various challenges faced by the franchise owners/holders.

Sample Size for the Purpose of Data Collection, the total sample of 5 franchisee owners and 100 consumers were selected randomly to answer the customized questionnaire.

Sampling Techniques the Sampling Techniques for the first questionnaire which was meant to be for the public was random. The sampling Techniques for the 2nd questionnaire which was meant to be for small scale outlets and franchise was random. The outlets selected were restricted to the city of Pune.

Primary Data: Questionnaire survey, it also includes few responses collected in person with the representatives of popular franchise owners.

Secondary Data: Literature available. The customers, General Public which could be potential customers as well as the restaurants owners will have to fill a questionnaire survey.

CASE STUDY

The case study involves considerations of a franchise run by me and my brother at Swargate, Pune. The franchise is of a newly started Amruttulya, known as 'Shreemanta Amruttulya'. The store opened on 11 September with an overwhelming response, and things started out smooth in the beginning.

Strengths

- Being placed at a prominent location, there was no lack of customers throughout the day, the need was just to provide good tea and snacks.
- The amruttulya is spacious and well-ventilated, people can easily stand and have their tea and snacks.
- The tea is priced at 10 rupees which is standard rate all around Pune. Also, the snacks are served hot and fresh.
- The space is hygienic and well maintained.

Weaknesses

- A lot of competition was observed nearby.
- Special care must be taken of customers, mostly because majority of the customers are conductors and bus drivers from PMT.
- There is no provision for timing when students come in big hoards, and there is a lot of chaos.
- Maintaining staff is exceedingly difficult in this sector, since most of the workers are migrants from different states of India, and they often return to their villages after a few months of work, and do not tend to come back for long.

Opportunities

- Metro project has been taking place throughout Pune, and main metro station will be placed in Swargate, hence there will be lot more people than before and demand for food and beverages will increase in the region, increasing business.
- There is no major eatery around the amrutulya and, starting food delivery seems to be an excellent option to maximize profits and business, by delivering lunch and dinner.

Threats

- The main threats such businesses face is when there is wastage of ingredients and spoilage of raw materials.
- Also, being in prominent spot, there is lot of competition, and there will be lot more competition in future, to which the owners must keep evolving new ideas and improvise business plans.

DATA ANALYSIS

Awareness about the Concept of Franchising for Business

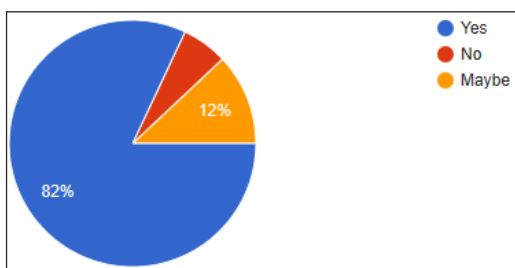


Fig. 1

Observation

The above pie chart shows that out of 100 people, 82 people are aware about the meaning of franchise concept, whereas 12 people are not sure and 6 are not aware about the concept. The feedback confirms that most of the people are aware about the concept of franchising and its implementation in business.

Preference of Food Joint between Brands and Nonbranded

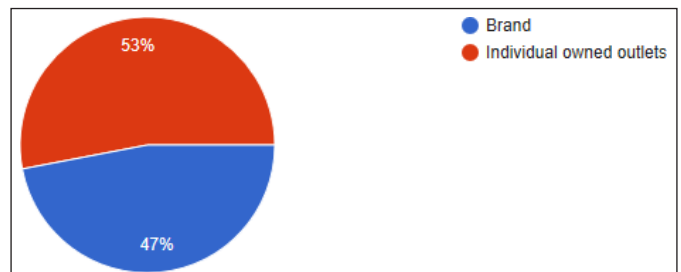


Fig. 2

Observation

As seen from the pie chart, we have observed that about 53 people (out of hundred) prefer individually owned food joints, whereas the rest care about the brand of the food joint as well. We can conclude that more people prefer individually owned food joints.

Franchise Business Assure Better Quality than Others

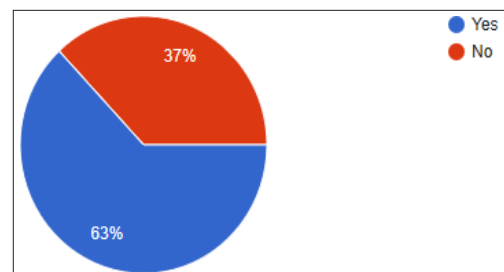


Fig. 3

Observation

Out of 100 people, 63 people believe that a franchise module does provide a certain quality standard, whereas

others don't think quality is maintained by the franchising outlets. As 37 people do believe that quality standards are not maintained, there is a demand for these franchise owners to step up their game in terms of quality and hygiene.

Challenges that Affect the Quality of Any Small-Scale Business

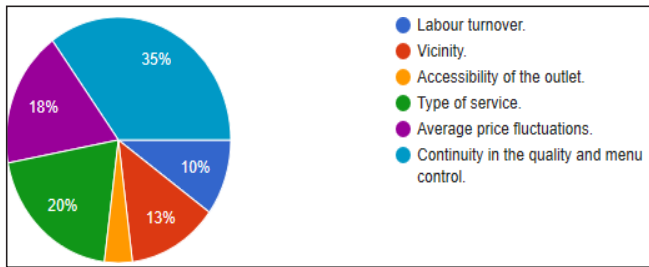


Fig. 4

Observation

Varying factors were considered which could be proven challenging to a small-scale business, for its smooth running and maintenance.

Most of the responses turned out to be pointing at maintenance of quality and menu control. Also, people associated overall quality with the type of service the outlet provided. Price fluctuation and vicinity also play in important role since these factors are linked with people's emotions. People also look forward the type of people working the outlet and their behavior. Whereas only few people considered accessibility of the outlet. So, an important factor that one must focus on a franchise outlet is to control the menu and maintain certain quality standards throughout the year, this is what keeps bringing people back. Also, people want a certain type of service, some prefer self-service whereas others want their orders to be delivered.

Franchising Big Brands in Small Scale is Much Profitable than Single Stand-Alone Brands

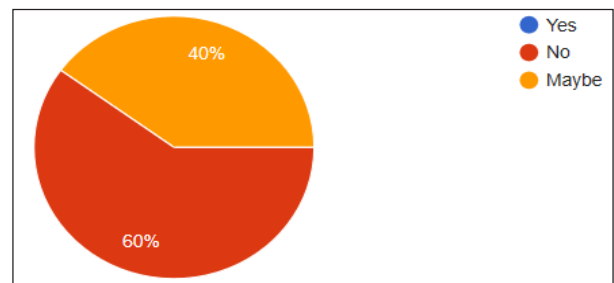


Fig. 5

Observation

The above pie chart shows that out of 5 owners, 3 owners were not satisfied with the profits they made, whereas 2 of them were still not sure about how the things were running. This makes us think that owners prefer their own brand instead of running a franchise model. Maybe because franchise model reduces their profit amounts and having a business of one's own is also self-assuring.

Minimum Percentage Achieved in Small Scale Business

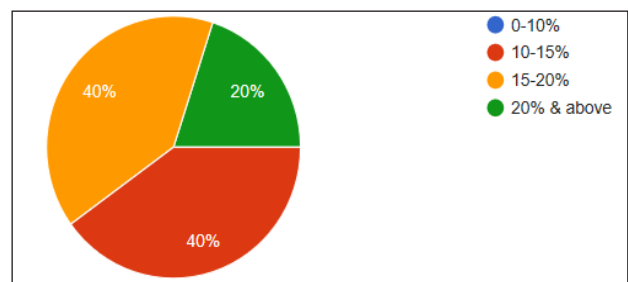


Fig. 6

Observation

2 owners claim the profit margin to be less than 15%, whereas 2 others claim it to be in the range of 15-20%. There also an owner who has suggested that profit margins are above 20%. This shows us the variation of profit margins, due variety in sale of products, some products are seasonal, whereas some are exquisite. Hence, sure the profit margins shift sideways most of the times.

Challenges Faced by Franchisee Owners and Operational Partners

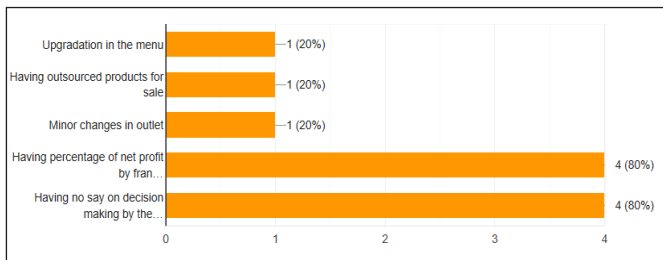


Fig. 7

Observation

As seen from the graph, there is fair share for problems like upgradation of menu, outsourcing of products, and smaller changes in the outlet. Whereas majority of the difficulty is faced while distribution of profits takes place and going against the will of franchisors. As we had seen earlier, profit distribution is a real problem for franchisee owners, since they are not satisfied with the amounts they land in their own pockets, as well as some decisions must be obeyed by the franchise as per contract, hence it can really obstruct the working of franchise owner in some cases. Whereas problems like changes in menu, outsourcing of products and changes in the outlet interior share equal part.

Problems Encounter by the Brand Owner Before Handing over Franchisee Outlet

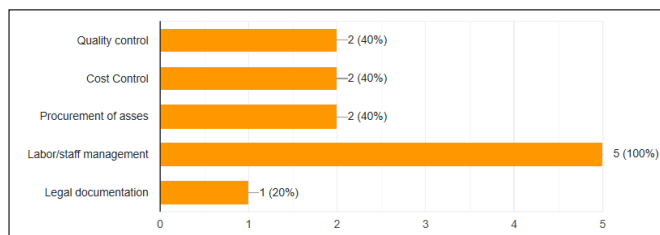


Fig. 8

Observation

About 40% of the responses recorded that quality control, cost control and procurement of the assets were the major

problems faced. Whereas all the franchisors believed that the major problem faced was staff management. Some of them also faced issues regarding legal documentation. As we know, maintaining a friendly and loyal staff in this business can ensure smooth running, and profit maximization. This is where the problem persists, since most of the staff is hired on temporary basis, or contract-basis. Hence, these staff members are dishonest and act intolerable sometimes. Also, issues such as quality and cost control, along with procuring of assets, also troubles the franchisor in some cases. Legal documentation is nowadays quite simple, hence most of the franchisors get through the process without any problem.

Simple Steps to Dissolve Minor Challenges Raised by Franchisor

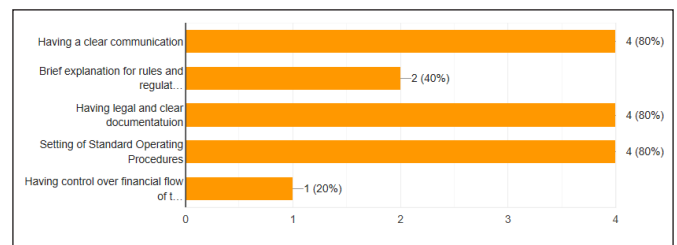


Fig. 9

Observation

The above chart shows various factors responsible for dissolving minor challenges faced-off between franchisor and franchise owner. The aspects that are critically important are having a clear communication, having legalized documentation, and setting some standard operating procedures. Also, some believe that clear cut explanation of rules and regulations is important. Small percentage (of about 20%) believe that control over financial flow of the franchise is important. So, as we can clearly establish that most of the franchisors believe that having clear and honest communication, along with established legal documentation and standard operating procedure, is the key to eliminate the challenges faced between franchisor and franchise owner.

Anticipated Limitations in Franchise Module Operation

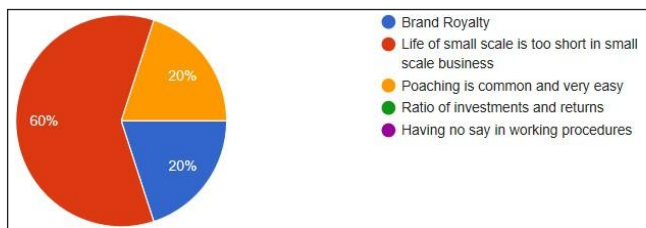


Fig. 10

Observation

The above chart depicts that around 20% of the people believe that brand royalty is one of the limitations. Whereas 60% of the people believe that life span of a small-scale business is too short. Also, the rest 20% think that poaching of these ideas is easy and common. It's seen that similar amount of people believe that brand royalty and poaching of ideas is one of the limitations of a franchise business model. Whereas majority people think that a small-scale business cannot have a long-life span. There are people who believe that ratio of investment to returns is fair. Also, people are quite content with the working procedures for a franchise, since the operation is maintained and controlled.

RESEARCH GAP

- The sample size available in research conducted was 100, which was insufficient. Assumptions and estimations had to be drawn, and hence there could have been some practical gaps in the report.
- Research method implied was based on responses recorded on google forms, which was limited to a questionnaire. Though the questions were well-designed and thought through, but the scope of interview was out of the picture. Face-to-face interaction was not possible with all the customers and franchisors, so they were limited to answer a set question, but if there were some points they wanted to add, there was extraordinarily little chance.
- Research variables played an important role in increasing the gap, as the responses are of people from variety of sectors and localities. These conditions played their role because everyone who responded

had different perspectives, households, thinking, and different history related to the topics asked in questionnaire.

OBSERVATIONS

From the responses recorded, the following observations can be found:

- Most of the people know of franchising concept, and it is as popular as individually owned restaurants and food outlets. Also, people believe in the quality of the food provided by the franchises.
- People are firm believers that a franchise outlet doesn't guarantee good profits, and there are a lot of problems faced by franchise owners.
- Location of a franchise can also affect business, but in some cases, people are also willing to go remote places to eat good food.
- Good money can be made from franchisors if a brand is well maintained at the beginning, but as seen in many cases, if the owners don't play good attention to their brand names, the quality of the products decline after a while.
- Maintenance of a franchise outlet is no small task, people have shut down their stores due to mismanagement, stress, and competition. When no support is provided by the franchisor after a franchise is sold, it makes the store owner more at risk. So, a franchisor should be responsible about his brand name, and keep visiting franchise outlets and keep a check on their needs.

SUGGESTIONS/RECOMMENDATIONS

According to the survey, people in Pune are familiar to the concept of franchising policies and surprisingly many people are following them too.

A few suggestions and recommendations I've observed are:

- There are 2 firm beliefs that have been noticed, when the research results were obtained, one of it was that people think that brand loyalty is a hefty price to pay, since the franchise owner must act according to the will of franchisor sometimes. This can be avoided by having clear communication between both the parties, and not having any second thoughts about

other party's opinion.

- Also, there other thing is about labour management, people are pleased with friendly and caring employees, hence hiring, and firing employees at the right time is critical.
- People are also concerned about management of quality and cost, if these fluctuate, the business will turn down ways.
- Having legal documentation for businesses is critical aspect. This is done to avoid misunderstanding in future. Hence, these things must be sorted at the initial stages of business.

CONCLUSIONS

- Quality maintenance is an important and key factor, which should not be underestimated and focused the most. Since most people tend to prefer places with better quality and menu control.
- Price fluctuations and price adjustments should be made accordingly, since varying prices tend to disappoint customers and hence, leads to loss of customers and brand value.
- Hygiene should be as critically important as quality of the service provided. Unhygienic places are usually avoided by mass public and may even lead to health problems in some cases.

Staff being interactive and friendly is a key factor, also staff training should be regular. The appointed staff shouldn't become a burden, instead turn out to be an asset for the outlet.

- Consistency in service being provided is also important, since people expect at least the same level of service to be if they received last time.
- Improving marketing strategies is also important to attract decent customers, since we live an age of social media, people should be aware of their surrounding food outlets, and making yourself seen in this competition is extremely helpful.

The research was conducted to find how many people are aware about the concept of franchising and how many of them knew about major franchises in the city of Pune. The concept of franchising has been around for decades and is quite popular. People usually find franchises attractive because they receive the same quality and

service all around, this makes their experience delightful and positive.

People are also nowadays being aware of new upcoming franchises, and they also anticipate arrival of popular brands in their neighborhood. But as interesting as it seems, there are a lot of difficulties faced by franchisors as well as franchise owners. These issues have been discussed in the questionnaire displayed above, and the responses highlighted a lot of key factors.

As newer people become aware about the idea of franchising, this billion-dollar food industry in our country is moving towards a different future, hoping that everyone benefits out of this situation, and there are more exciting and interesting franchise ideas upcoming.

FURTHER SCOPE

- There is some further scope which can be done in this research by analyzing the cost benefits which can be affected depending on the level of practices which are followed.
- The customer's adaptation to the concept in the future.
- Till what extent are people adapting to this concept in the future.
- The revised profit obtained by the franchise owners.
- To check if this concept is sustainable in the future by most of the small business owners.

REFERENCES

- Nabatov, A. (2014). *Challenges and opportunities of multi-unit franchising in fast-food industry* (Thesis). Saimaa University of Applied Sciences.
- Baskin Robbins. Baskin Robbins in Russia. (n.d.). Retrieved March 23, 2014, from <http://baskinrobbins.ru/o-kompanii/?ns=2>
- Wingrove, C. A., & Urban, U. (2017, March 31). Franchised fast food brands: An empirical study of factors influencing growth. *Acta Commercii*, 17(1).
- Chester, S., & Scott, S. (1998, April 15). Factors for new franchise success.
- Makan, K. (2019, June 2). The advantages of starting a fast-food franchise in India.
- Ayup, J., Calderon-Monge, E., & Carrilero-Castillo, A. (2019). The effects of management and environ-

- mental factors on franchise continuity. *Economic Research*, 32(2), 1-16.
- Food Service Indian Bureau. (2019, April). Franchising as a model for business expansion in foodservice.
- Hashim, A. (2010). Want leverage? Multi-unit franchisees deliver substantial savings. *Franchising World Magazine*. International Franchise Association. Retrieved March 3, 2014, from <http://www.franchise.org/Franchise-Industry-News-Detail.aspx?id=52218>
- Kaufmann, P. J., & Lafontaine, F. (1994). Costs of controls: The source of economic rents for McDonald's franchisees. *Journal of Law and Economics*, 37(2), 417-453.
- Jumadildayeva, Z., & Usanova, M. (2015, September). Franchising as a tool for small and medium business development. *Mediterranean Journal of Social Sciences*, 6(5).
- Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students* (5th ed.). Prentice Hall.
- Webstaurant Store. (2018, June). Advantages and disadvantages of owning a restaurant franchise.

Retrieved from <https://www.webstaurantstore.com/article/73/restaurant-franchise-advantages-and-disadvantages.html>

Website

- www.google.com
- <https://limetray.com/blog/food-franchise-india/>
- www.economicstimes.com
- <https://www.investopedia.com/terms/f/franchise.asp>
- <https://www.franchiseindia.com/>
- <https://www.tandfonline.com/doi/full/10.1080/1331677X.2019.1592008>
- <https://www.indiaretailing.com/>
- <https://thescholedge.org/home.html>
- <http://mcser.org/>
- <http://sloanreview.mid.edu/>
- <http://pdfs.semanticscholar.org/>
- <https://www.frankartglobal.com/>