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## Role of Franchising in the Growth of Retail Business in India

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*Abstract: The Indian market has a great demand for franchising, which offers great alluring opportunities with great returns to the investors. This paper explains the concept of franchising and some of the major issues related to it. The future of franchising seems bright as it being a new business format in India and increasingly gaining the interest of investors. The objective of this research is highlight need of the franchising in India and need to understand Indian franchising regulations. The sectors having great prospects for franchising business will also be discussed. It also covers some aspects like advantages and limitations which are important for the Franchisor, Franchisee, Government and Customers.*

*Keywords: Franchising, Indian market, Business growth.*

### I. INTRODUCTION

Franchising will flourish with foreign brands seeking local partners to expand in India there are many sectors where change has seen the highest economic impact and emergence of most opportunity. It is also seen that the growth in a new markets, in new countries and in an unknown economy can be successfully achieved through partnerships and alliances.

Franchising is becoming new business in India and investors are also taking interest in this. A local brand can easily become global brand by franchising without investing huge funds for instance a Pizza Company opened a franchise outlet in Chandigarh, it is owned by Ahmedabad based group and it is earning alluring returns by delivering quality at competitive prices. It has nearly 120 outlets in its Pan India Network of which 112 are franchise outlets and the rest are company owned. It also has international presence through 12 outlets in countries like US, UK, UAE and Canada it is looking to extend its international footprints by having three more opening till Dubai and one in Australia via franchising.

There are many other examples of expansion of business through this. Franchise has emerge as a popular business model but to convert its popularity into business profits, it is pertinent that an enduring relationship with customer is maintained in a bid to understand their taste, preferences, income, age, culture, education, religion etc. franchising is a creative business and it is no more a shop with merchandise to be sold. The curator of the business applies numerous innovations to help grow the business. But first of all he has to think like and entrepreneur. There is a need to have constant engagement with the customer and a relationship which convert the customer into loyal customer.

India, which has a growing middle-class of over one billion people, is now positioned as a major force in the global economy and fertile ground for investment in retail and business development. The franchising industry in India is expected to grow at an annual rate of 30 percent, and to drive the country's current \$330 retail sector even higher. In 2007, more than 750 national and international franchisors were operating in India, employing millions of people, and generating revenues in excess of \$3 US million.

India's retail sector growing at more than eight percent a year. Statistics from the Franchising Association of India, franchises currently account for only two percent of retail revenues in India compared to almost 50 percent in the US. However, that two percent is growing at a fast pace, and the implications point to astounding market potential.

The success rate for individual franchise business owners in the US is 92 percent, and since franchise businesses are based on proven systems, the success rate for Indian franchises should be comparable. Franchise business in India is growing at a swift pace of 35 -38 per cent per annum. India offers a huge potential for education entities looking to spread their concept in India through franchising and educating the young Indian population. Over 390 active education franchisee owners in India form the Informal and supplementary education system. Professional and vocational skills capturing almost 33 per cent of the total share followed by IT training. The latest news that India's education sector is forecasted to increase its IT spending from an estimated \$356 million in 2008 to \$704 million by 2012, reflecting in a Compounded Annual Growth Rate (CAGR) of 19 percent during 2007-2012.

According to the research study by Springboard Research, and IT Market Research industry (Source - Silicon India) Though the Franchising in India is at a very emerging stage, but this industry has clocked the growth rate of 25-30 per cent, the second fastest growing industry. • There were approximately 1150 national and international business format franchise systems in India in 2007. There are an estimated 70, 000 units operating in business format franchises. • The growth rate in franchised units from 2005-06 to 2006-07 was 30 to 35 per cent for the last 4-5 years • Some 500000 persons are employed in business format franchise organizations • Franchising contributed approximately 3-4 per cent to India's Gross Domestic Product (GDP) in 2007. Successfully doing business in more than 35 sectors Annual turnover is approximately US \$ 4 billion.

## II. LITERATURE REVIEW

When one thinks to expand the business, he starts working on the alternatives, seeking advices from the experts and try to collect data from various sources so that to face the issues efficiently and effectively and achieve the target. Today, franchising is becoming the first choice because entrepreneurs have realized the aroma of quick returns. It has especially become popular in retail sector even though involved in other sectors as well "Spotting emerging trends in Global Franchising" Rod Young. In this paper, we tried to understand how the businessmen can make his venture profitable through "how to build a profitable biz" Anupam Bansal. The word franchising is itself having a great meaning and for that Online Etymology Dictionary is referred.

The law related to franchise at the international market is given "International Franchise and Distribution" DLA Piper and in the U.S "Distribution Law of the United States" Gurnick, David (2011) Mario L. Herman" understanding Indian franchise regulations" (December 2012). To know how it is useful or not to go for franchising as per the legislation we gone through the article "Legislation: Help or Hindrance?" Simon Lord and David Munn (1st August 2011). "Franchise laws in India" Franchising Association of India had provided the guidelines related to the franchising.

**III. RESEARCH METHODOLOGY**

This research paper is confined to the role of franchising in the growth of retail business in Indian. Research methodology used is exploratory in nature based on published literature.

Data and information for the research study were gathered and analyzed from secondary published sources viz. books, periodicals, journals, web sites, research studies, etc.

**MEANING**

A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee, wherein the franchisee operates under a common trade name, format and/or procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources.” or in other words Arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications.

1. Legal and commercial arrangement concerning the successful business of a franchisor.
2. Use of franchisor’s trade name, format, system and or procedure under license.
3. Means to raise capital and expand quickly.
4. Assistance to franchisee in Marketing, management, advertising, store design, standards specifications, training.
5. Payment by franchisee by way of royalty, licensee fee or other.
6. Franchising is more than distributorship which extends to an entire operation or method of business with greater assistance, control and longer duration but on the other hand distributor merely re-sells products to retailers or customers.

**NEED OF FRANCHISING IN INDIA**

1. The economic reforms have taken centre stage in the country and India is getting up for yet another post reform era. Foreign company are looking to enter the market and retail management is going to play a very important role for franchising stores to draw more sales and profitability.
2. To offer a great shopping experience to customer in retail sector.
3. There are many challenges in the market for instance retail differentiation, merchandising mix, supply chain management and competition.
4. To provide continuous excellence services to customer.
5. Today Indian customers are well travelled and know their brands well and are looking for new brands which give them commitment and quality.
6. There is always a demand for exquisite and innovative product.
7. Due to expansion of international trade and explore to international media the customers are now more aware of brands available in the market.
8. Before there were few players in the market which deliver expensive services but with the increase in improving lifestyle, cumulative international exposure and a greater awareness for franchising stores to draw more sales and profitability.
9. Franchising plays an important role for the future success and the popularity of the brand.

10. Internet access is opening the world to India, making its population more aware of global trends and brands and even e-commerce is playing a very important role in the expansion of franchise format of business in India.
11. The Internet is making it easier for international companies to gain an understanding of India's culture, geography and politics etc.

#### **ADVANTAGES OF FRANCHISING TO FRANCHISOR & FRANCHISEE**

1. Modern Layout.
2. Great Customer Services.
3. Backing of well known, experienced, promoters and professionals.
4. Easy tapping of untouched market.
5. Easy to grow business with the help of associate.
6. Help to stimulate big revenue.
7. It help franchisee to grow quickly efficiently and successful.
8. Franchise helps the business to grow in different cultures climes and economic system.
9. No need of direct control as in case of subsidiary.
10. India is in the midst of a retail revolution. By 2015 it is set to become one of the top five retail markets in the world. The country is also second largest global producer of footwear the Indian retail and footwear market can be easily tapped through franchising.
11. It helps to add value to be business.
12. The international market to expanding and the world is getting smaller. Franchising legislation in many countries is leading to better conduct in franchising.
13. Franchising has emerged to bridge the gap between an employee's short term commitment to success of his employer and the innovative but limited resources outlook and expertise of the independent business.
14. With emergence of several organized retail opportunities and influx of foreign trade and finance the sector has witnessed a tremendous growth. It has also generated job opportunities for millions of people across socio economic classes.
15. The franchise is also benefitted by the brand name of the product and names from a traditional method to a professional one.
16. It is not always easy and profitable for investors to build a new brand but on the other hand if investment in done in existing brands which have already proved their worth in market is more safe and profitable.
17. The franchisee partner saves time as the brand is already developed by franchisor. The franchisor's advice and guidance gives direction to the franchise partner on what works and work does not in the business. Overall minimization of business risk will be there.
18. Many entrepreneurs have high failure rate during the initial years and most of them leave their business because of various factors mainly due to lack of financial back up, leadership qualities and innovative business ideas, But in franchising the training guidance, continues assistance increase the chances of success.
19. Everybody is not an innovative or product developer but many are ready to invest in business as investors. They lack the ability of strategic thinker but ready to serve the customers for them franchising is best.

20. Now 100% FDI in single brand retail has been approved by the government. The Indian franchise industry has witnessed a tremendous change in the last one year with a virtual facelift in FDI policy which has opened new opportunities for foreign investors as well as Indian entities. The government of India GOI vide press no. 1 of 2012 dated January 10, 2012 permitted 100% FDI in single brand retail trading subject to certain restrictive condition and riders which were proving to be deterrent for the brands waiting to enter the Indian retail segment given the industries' lukewarm response there to GOI vide press note. 4 of 2012 dated September 20 2012 relaxed some of these restrictive conditions.

#### **ADVANTAGES FOR THE NEW FRANCHISOR PLANNING TO ENTER IN INDIAN MARKET**

1. India offers a large population of well educated population of well educated young people familiar with technology and software.
2. Ever growing middle class with increasing disposal income.
3. It has the world's largest English speaking populations.
4. It is estimated that 30% of the population is middle class in India which computes to 300000 million people
5. India provides a friendly franchising climate.

#### **NEED TO UNDERSTAND INDIAN FRANCHISING REGULATIONS**

Though franchising has great potential in India. It is prudent for both franchisors and prospective franchisees to take the plunge only after consulting international franchise legal counsel and after fully understanding the common law and statues prevalent in India.

US Franchisors are attracted towards the possibilities of expansions in the world's largest and fastest growing Indian market. It provides excellent franchise opportunities for qualified franchisors.

In Indian there are no legal statues specific to franchising which governs either sale of franchises or the relationship between franchisor or the franchisees. This means there is no legal registration required for franchisor. But the common law doctrine and other general statues can be used to ensure that a franchisor can deal with honesty and in good faith with its prospects and franchisees.

The common law doctrine of equity under Indian law requires that, where a disclosure document is provided. It must comply with common law doctrine and be a true and genuine statement of franchise offering. Additionally, there is a legal obligation on behalf of both the franchisor and franchisee to deal with one another in good faith.

The Indian contract act 1872 governs the contract between the parties to a franchise agreement. This contract Act provides "All Agreements are contracts, if they are made by the free consent of the parties, competent to contract, for a lawful consideration, with a lawful object, and not hereby expressly to be void." franchise agreements are also covered under the Specific Relief Act 1963, which provide for both specific enforcement of covenant in a contract and remedies in the form of damages for breach of contract

Both franchisor and franchisees should be diligent in consulting with international franchise legal counsel to ensure that the franchise agreement does not contain any provisions that render the contract void or voidable under Indian law.

Other statues which franchisors and franchisees should be aware of are Consumer Protection Act 1986 ("CPA") and the Competition Act 2002 ("CA") Any violation of these acts could create liability to members of the consuming public in India.

**FACTORS AFFECTING PROSPERITY OF FRANCHISING IN RETAIL BUSINESS**



**THE SECTORS HAVING GREAT PROSPECTS FOR FRANCHISING BUSINESS**



**LIMITATIONS OF FRANCHISING IN INDIA**

1. Political instability.
2. Underdeveloped financial system.
3. No proper legal system that protects intellectual property rights and upholds contractual obligations.
4. Underdeveloped infrastructures.
5. Low income of customers.
6. Entry barriers.
7. High exit cost.
8. Huge investment.
9. Lack of transparency in business.
10. A brand famous in one country may not survive in other country.
11. Lack of awareness among the customers about the available brands in the market.
12. Unavailability of cheap retail space.

**IV. CONCLUSION**

Every business reaches the stages when the owner realize that they have gone as far as they could go in their home country and need to look abroad for further expansion and they search for the alternative which can help them to expand their business in new markets but to select and work on that is a challenge for any company. When the organization selects Franchising as an option, they have to consider various factors which directly or indirectly effect the growth of the business in a particular environment. Franchising is taken as the best option in present scenario because of many reasons it can be economical, social, political benefits etc, though, it is also having some limitations such as huge investment, unavailability of cheap space etc.

Over the next five years the franchising sector will grow at high rate. Franchising is healthy and the prospects for continued global growth look positive. The investors are not always equipped with the qualities like leadership and of a good trainer which are necessary for an entrepreneur to start the business in a climate of relentless change, pressure and responsibility. There is an urgent need to equip the investors with skills to manage these changes. It can be possible only through franchising.

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