

**AN ANALYTICAL STUDY OF THE FRANCHISING BUSINESS,
ISSUES AND CHALLENGES IN PUNE REGION (2008 - 2018).**

A Thesis

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BY

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MARCH, 2023

CERTIFICATE OF THE SUPERVISOR

It is certified that work entitled **An analytical study of the franchising business, issues and challenges in Pune region (2008 – 2018)** is an original research work that has been carried out by Mr. Umesh G. Mali Under my supervision for the degree of Doctor of Philosophy in Management to be awarded by Tilak Maharashtra Vidyapeeth, Pune. To the best of my knowledge this thesis

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UNDERTAKING

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ABSTRACT

TITLE OF THESIS: AN ANALYTICAL STUDY OF THE FRANCHISING BUSINESS, ISSUES AND CHALLENGES IN PUNE REGION (2008 – 2018).

1. Introduction:

Franchising is a business system based on a legal contract wherein the franchisor grants a license to the franchisee to use the franchisor's diverse intellectual property rights, namely, knowhow, designs, brands, trademarks, patents and the trade secrets along with the franchisor's product or services in return for a sum of money in return, the franchisor gains rapid expansion of business and earnings at the minimum capital investments. The franchising is assumed to be one of the most popular, successful and feasible business strategies in most of the nations. It has now represented as one of the quickest growing and well accepted business expansion methods which are approved by a sizeable number of different industries in various sectors. Researcher has given an elaborated view on various definitions, meaning, benefits and importance, types, functioning of franchising, advantages and disadvantages of franchising to franchisors and franchisees, theories associated with franchising, models in franchising.

2. Statement of Problem:

- i. There exists conflict in franchising relationships which if not addressed properly can lead to getting in to undesirable situations for both franchisor as well as franchisee.
- ii. There is no franchise law existing in India & franchise system has to depend on various other necessary laws and regulations in order to have legal control on franchise business activities in India.
- iii. There is no systematic research done with respect to success & failures happening in the franchising business in India.

3. Growth of Franchising business:

i. Growth of Franchising business Globally:

There has been a significant increase in the number of franchises all over the globe. The huge growth and expansion rate of franchising business model internationally has attracted a significant level of interest of the academic community in exploring the various advantages and challenges associated with the application of franchising. Franchisees have made 10-11% of the Gross Domestic Product (GDP) in 83 countries. Currently, there are about 21500 franchisors and 2.65 million franchisees in the world. Globally, the countries those are leading in the franchising business activities are the USA, Canada, Korea, Japan, Australia, Germany, France and Great Britain. Franchising has become an accepted strategy for business growth, job creation and economic development. Various industrial sectors of economy have been adopting franchising as safer, economical and convenient mode of business expansion. During 1990's franchising had started emerging in food and beverage sector, retail & lifestyle sector and pre-schools (education) high schools, higher education sector. In the present business scenario, franchising has shown to have grown in other sectors of economy also such as beauty and wellness, healthcare such as saloons, spas, gymnasiums, doctors, chemists, clinical labs etc. and other support service sectors such as financial services, travel and tourism, telecommunication, courier services, hospitality, laundry, florists, interior decorators etc. As per IFA (International Franchise Association) estimates, every year more than 800 companies are entering into the franchise system as franchisee units and around 100 franchisors seek the global expansion through this medium.

ii. Growth of Franchising in India:

Burgeoning consumer class with an increasing appetite for consumption is considered as the biggest growth driver, both by franchisors and franchisees. Ever increasing consumerism, increasing willingness to spend more, growing awareness as well as preferences towards branded products and services, increased international exposures and increased use of global brands of products and services are actually driving the demand side of franchising whereas increase in the entrepreneurial ventures by Indian entrepreneurs, increased awareness of franchising as business growth expansion method for being comparatively low in the associated risks involved are actually driving the supply side of franchising. Apart from this, an easy availability of

investments and increased investment capability has also been a key factor driving the growth of the industry. Services sector that includes Courier Services, Financial Services, Food Services, Travel and Tourism services amongst other services are expected to contribute largely to the overall growth of franchising business activities in India in the coming decade or so. Moreover, the Indian government has allowed the Foreign Direct Investment (FDI) in selected business sectors such as retail that has been considered as the major step to attract the international franchisors to set up and expand their franchised business activities in India. Since India has a great business potential that has still been remaining to be explored fully especially in the franchise activities, a significant number of international franchisors are focusing on the untapped Indian markets. With the Indian government easing out the entry routes for international brands with the objective of strengthening national economy, many international franchisors have made a successful entry in to the Indian markets. Indian economy since liberalization has witnessed steady revolution. As per the macro statistics, agriculture is no longer considered as the chief contributor to the Indian economy. For the last two decades the country is focusing more on manufacturing and service based economy. This growth has given momentum to a huge entrepreneurial appetite. Most of the industries leveraging their growth have adopted franchising strategy and are franchising their products under various sectors such as food and beverage, education, fashion, tourism and hospitality etc. According to franchising association of India, the franchising business in India is growing at an average of 20 - 25 percent for the last ten years. Several international brands have entered India in the last few years and have been able to create jobs and wealth at local level. In India more than 3,500 brands are currently operating under franchise model. More than 850,000 jobs are attributed directly to franchising and more than 150,000 franchisees are operational in India (Ref.International Franchising Association, 2014). Also franchising contributed to less than 6 percent to India's Gross Domestic Product in 2014. Around 6 -7 per cent Indian franchise systems have entered international markets. In the State of Maharashtra franchising has originated in 1980s.It is usually food & beverages and retail sector which are accumulating in the market by means of franchising followed by healthcare & beauty and education sector. KPMG in India estimates suggested that the Franchising business in India is worth USD 13.4 billion in 2012 and is expected to witness CAGR of 30 % over the next 5 years. This amounts to about 1.4 % of the country's GDP in 2012.

iii. Growth of Franchising in Pune region:

Pune is the second largest city in the Indian state of Maharashtra and the eighth most populous city in India, with an estimated population of 7.2 million as of 2020. It is known for its authentic food and cultural heritage. Pune has grown to be a powerful business hub in India and has been recognized as one of the fast developing metropolitan cities in India. Franchising has made its way in the economy of Pune and is helping thousands of individuals in Pune to own the proven business ventures successfully. Many established franchisors of Indian as well as global brands have been looking out for prospective business partners to start their franchises in Pune region i.e. in Pune city and adjoining areas. Significant rise in the number of Shopping malls in Pune since last 2 decades have become one of the most important factors for achieving the significant growth rate of Pune city and the surrounding areas with respect to franchising activities. It was in the year 1980 that the franchising business activities started in Pune. Today, Pune has competitively acquired success in franchising in most of the industries.

4. Legal Aspects of Franchising:

Further, an investigation in to the legal aspects of franchising business has been discussed in details. Growth of any business, to a certain extent is based on the legal support that it gets in the country where it operates. Legal environment or the regulatory framework in a country binds the operations of concerned business and aligns it in right direction. At present only a select few countries like United States, Australia and Malaysia have specific laws dealing with franchising. However, except in the USA, and now in The Republic of China, where there are explicit Federal laws (and in the US, State laws) pertaining to franchising, most of the world recognizes 'Franchising' as a business activity but rarely makes any necessary legal provisions for it. Only Australia, various provinces within Canada, France and Brazil have significant Disclosure laws but Brazil regulates franchises more closely.

Regulation of Franchising In India:

In India the major hurdle in the growth of a vibrant franchising industry is the lack of any regulation and specifically the absence of a specific legislation to regulate franchising. The legal system as it is very poor and tardy in India. It is high time that appropriate steps are taken to regulate franchising in India. Any franchising arrangement involves among others, the contract

law, the laws relating to intellectual property, law of agency, company laws, laws relating to competition and taxation, laws relating to property and insurance. There is no specific law that governs franchising in India. Therefore franchise agreement and operations of franchise system of business are governed by different laws in India. These multiple laws related to business and industry form the base for regulating the franchise business in India.

5. An overview of Reviewed Literature:

In order to find out the depth and feasibility of the current research study, the researcher has carried out a detailed literature survey. The most relevant literature is presented under the following headings keeping in view, the objectives and hypotheses of the study. The papers included in the review are studies conducted overseas and in India with franchising as the prime focus. The search of research papers was further refined by limiting to growth, international franchising, success and failures, conflicting issues, legal issues and various challenging issues in franchising. These research areas form the core content of the present research work undertaken. The literature review includes various doctoral studies, published and unpublished articles in national and international journals. It also contains proceeding in seminars, conferences and information specified in various websites, surveys and books on franchising. A total of 104 research papers, articles, thesis and books were studied for reviewing literature related to various specified aspects in franchising as mentioned in above paragraph. A research paper as old as that was written in 1968 to as new as that was written in 2016 were included in the study. Most of the papers are based on studies in developed countries while much less number of papers were explored in Indian conditions.

6. Scope of the Study:

The study has been chosen to be conducted in the Indian franchised sector. Franchising industry in India has remained mostly untouched by researchers in almost all aspects. There is a need for doing a systematic research for this because it has been flourishing at a faster pace in India and so are the potential issues like conflicting issues and various challenges between franchisors and franchisees. After reviewing literature, the scope of this research is defined within the various issues and factors on which the success of the franchise industry lies. The scope of the study is limited to Pune city & surrounding areas for studying the various potential issues and

relationship between franchisor and franchisee because of robust growth happened in the city over the years and it is the mainstay of development in the state of Maharashtra & India. India needs growth in the economy and franchising is one of the key industries to attain the economic objectives of the state & country as a whole. Hence this study of franchising in Pune city & surrounding areas is chosen for carrying out the research. The researcher has carried out the study on selected Franchisors, Franchisees in Pune region i.e. Pune city and surrounding areas only for the purpose of collection of Primary data in view of finding out growth of franchising, legal issues, conflicting issues, other potential issues, success & failure rate analysis in franchising because of the operational convenience and from the point of view of time and cost factors. The scope of research pertains to the period of 10 years from April 2008 – March 2018. A total of 248 research papers and books were studied for reviewing literature related to various specified aspects in franchising as mentioned in above paragraph. A research paper as old as that was written in 1968 to as new as that was written in 2016 were included in the study. Most of the research papers are based on studies in developed countries while much less number of papers were explored in Indian conditions. It is observed that a few research papers are from developing countries which again highlights the need that the research study in franchising should also be done in the context of developing countries.

7. Research Methodology:

It's a known fact now that even though the Indian Franchise business industry is showing an all-round growth, it is worthwhile to understand any lapses/gaps those might exist, review the processes and systems and re-state business objectives in order to make franchising business a successful and enduring/longstanding one. For the purpose of analyzing the research gap areas in details, the researcher has intended to carry out an extensive and deeper study with respect to the growth, international franchising activities, various issues like legal issues, conflicting issues, challenging issues and success and failures happening in franchising business activities in India with a special reference to Pune region (Pune and surrounding areas). Researcher has adopted the research methodology that will mainly focus on the research techniques used for the current study in order to test the research hypotheses and thus achieve the research objectives.

8. Research Objectives studied:

A total of 9 objectives have been set by the researcher for the purpose of conducting research on the current topic selected for study as follows:

Objective 1: To study the nature, type and growth of the Franchising business in India with a special reference to Pune & surrounding areas.

Objective 2: To Examine the Legal Environment of Franchising in India and abroad.

Objective 3: To study various problems caused due to lack of specific franchising law in India.

Objective 4: To study the various conflicting issues existing between the Franchisors and Franchisees and to find out the possible reasons responsible for such conflicting situations.

Objective 5: To study different possible ways of conflict resolution adopted by both the parties involved in Franchising in order to re-establish continual smooth relationship between them.

Objective 6: To study various Success stories & Failures happening in the Indian Franchising business activity.

Objective 7: To carry out a systematic Success & Failure rate analysis in order to find out various possible reasons and the contributing factors responsible for such Successes and Failures and accordingly establish a Cause - Effect relationship.

Objective 8: To investigate the impact of conflicting issues between the Franchisor and Franchisee as well as the impact of Successes and Failures happening in the Indian Franchising business on the various indicators of the Economic growth of India.

Objective 9: To provide remedies / suggestions/ recommendations for success and growth of Indian franchising business.

9. Research Hypothesis studied:

There are a total of 8 major Hypothesis as mentioned below which are formulated and duly tested with the use of appropriate statistical tools in order to study the selected research objectives.

Hypothesis No.1 H0: There is a low development of franchising business in India as compared to the significantly high development of franchising business in the developed nations.

Hypothesis No.2 H0: There doesn't always exists conflicting issues between Franchisor & Franchisee.

Hypothesis No.3 H0: There is no significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors.

Hypothesis No.4 H0: Conflict resolution between Franchisor & Franchisee dos not assume a significant importance for the success & growth of Indian franchising business.

Hypothesis No.5 H0: There is no positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising.

Hypothesis No.6 H0: Problems faced by franchisees due to the lack of specific franchise law in India does not have a significant impact on the satisfaction of franchisees.

Hypothesis No.7 H0: There is no significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India.

Hypothesis No.8 H0: Failure rate of the Franchisees in India is more as compared to the Success rate of the Franchisees.

10. Design of the Questionnaire/Research Instrument:

The literature related to all these constructs was studied in depth and variables that affected these constructs were included in the scale. Two different sets of questionnaires were administered, one each for franchisees & franchisors.

The first i.e. Part-A of both the questionnaires included demographics of franchisors and franchisees listing demographic details. Part-B of the questionnaires included the items related to the business details. Part-C, Part-D, Part-E, Part-F and Part-G of Franchisee's Questionnaire and Part-C, Part-D, Part-E and Part-F of Franchisor's Questionnaire covered the items relevant to growth, various issues pertaining to the operational issues, legal issues, conflicting issues, success and failure happening in franchising and other relevant issues in franchising. The Five-point Likert scale has been used in all the relevant items of the constructs intended with reference to the research objectives.

11. Utilization of Sampling Techniques for Data Collection:

For the purpose of the research study, following sampling technique has been applied for the data collection from franchisees and franchisors in Pune region viz. Pune city & surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas.

Stratified Random Sampling (Probability Sampling):

The strata chosen for the study are: Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education and Support Services.

i. Area of study:

The study has been conducted in Pune region that covers n Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas of Pune region. The areas having operational franchisees were included in the study.

ii. Selection of sample:

A tentative mapping of the franchised business in the target area was done following which their current operational franchised outlets were determined. A comprehensive list of operational franchisees and franchisors was prepared with the help of information collected from the local office of FranchiseIndia organization, relevant websites and magazines. The overall population of franchisees in Pune city and surrounding areas was found to be 5454 and franchisors whose franchises were operating in the state were 724. In context to the above criterion, a sample size of 576 franchisees and 115 franchisors was determined.

12. Collection of data:

The respondents chosen were majorly from five sectors of Indian economy namely – Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education, Support Services etc. The major concentration of all these franchised business establishments are in Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas as far as Pune region is concerned. Thus, the sample included in the research study is drawn from these areas. Hence franchisees and franchisors from these areas were contacted and requested to fill questionnaire. Subsequently after the questionnaires got finalized, using the list of franchisees and franchisors prepared earlier the researcher began establishing contacts with the respondents either through Tele-calling or sending E-mails as was suitable for the appointments and then the questionnaires were administered to them accordingly.

i. Primary Data Collection:

The researcher has collected the necessary Primary data appropriately in accordance with the needs of his research work. For the present research, the primary data has been collected from various franchisee outlets as well as franchisors which all are operational in Pune region. Data for the study was collected with the help of well-designed self-administered questionnaires separately from franchisees and franchisors operating in Pune region. The questionnaires were personally administered to the franchisees, while as from franchisors the questionnaires were partly collected by meeting franchisors personally and partly by means of mail survey.

ii. Secondary Data Collection:

The researcher has collected the necessary Secondary data in accordance with his research needs. Other types of written information was also obtained by the researcher through sources such as Franchisee meets, Franchisee Business Exhibitions, Conferences held by Franchisee association of India with a purpose to understand deeply about the important concepts and franchised business activities as a whole. The relevant secondary data sources used by the researcher are - Research Journals, Published Research Papers, Reference books, Magazines, Information Broachers, Electronic media etc.

13. Analysis of data with the help of Statistical Tools/Techniques Used:

Data collected through the survey was analyzed by means of certain statistical tools and techniques. The data analysis was done using MS Excel software in order to draw valid, reliable and meaningful results so as to accomplish the objectives of the study. Various hypotheses in the study were tested using statistical tools and techniques like Frequencies and Descriptive Statistical Analysis, Pie Chart and Bar Charts, Student's t-Test, Regression Analysis, Factor Analysis etc.

The important tables in data analysis are as given below on the basis of which the findings and conclusions are drawn.

i. Descriptive Statistics For Franchisee's opinion on Conflicts

Sr.No.	Parameter	No.of Respondents	Mean	Standard Deviation
1	Lack of Support	576	2.6754	1.7213
2	Communication Issues	576	2.9670	1.7837
3	Misinterpretation of Issues	576	3.3732	2.8839
4	Compliance with the conditions of Agreement	576	2.8299	1.6561
5	Training Issues	576	3.2674	2.7054
6	Territory Issues	576	2.6267	1.7589
7	Maintenance of Quality Standards	576	2.7656	1.6814
8	Marketing Issues	576	2.8785	1.5613
9	Profit Margins	576	2.9514	2.0881
10	Stocks & Supply Issues	576	2.5139	1.8430
11	Fee Remittance Issues	576	3.3056	2.7448
12	Excessive Control Issues	576	2.7257	1.7252
	Valid N (List wise)	576		

ii. Descriptive Statistics For Franchisor's opinion on Conflicts

Sr.No.	Parameter	No.of Respondents	Mean	Standard Deviation
1	Lack of Support	115	1.6348	1.6297
2	Communication Issues	115	1.7218	1.9827
3	Misinterpretation of Issues	115	1.3739	1.6007
4	Compliance with the conditions of Agreement	115	1.2783	1.6226
5	Training Issues	115	1.7566	2.1333
6	Territory Issues	115	1.2609	1.6985
7	Maintenance of Quality Standards	115	1.7044	2.0966
8	Marketing Issues	115	1.3218	1.6493
9	Profit Margins	115	1.2696	1.6609
10	Stocks & Supply Issues	115	1.6174	1.7320
11	Fee Remittance Issues	115	1.4087	1.5787
12	Excessive Control Issues	115	1.4522	1.4514
	Valid N (List wise)	115		

iii. Summary on Hypotheses about conflicting parameters/ issues.

Sr.No.	Parameter	T-stat	Table	P Value	Null Hypotheses- H0	Alternative Hypotheses - H1
1.	Lack of support	5.9704	1.9634	P < 0.01	Rejected	Accepted
2.	Communications Issues	6.7056	1.9634	P < 0.01	Rejected	Accepted
3.	Misrepresentation of	7.2131	1.9634	P < 0.01	Rejected	Accepted
4.	Compliance with the Conditions of the agreement	9.2036	1.9634	P < 0.01	Rejected	Accepted
5.	Training Issues	5.6471	1.9634	P < 0.01	Rejected	Accepted
6.	Territory Issues	7.6455	1.9634	P < 0.01	Rejected	Accepted

7.	Maintenance of Quality Standards	5.9139	1.9634	P < 0.01	Rejected	Accepted
8.	Marketing Issues	9.6697	1.9634	P < 0.01	Rejected	Accepted
9.	Profit Margins	8.1369	1.9634	P < 0.01	Rejected	Accepted
10.	Stock & Supply Issues	4.8093	1.9634	P < 0.01	Rejected	Accepted
11.	Fee remittances	7.1752	1.9634	P < 0.01	Rejected	Accepted
12.	Excessive control	7.4087	1.9634	P < 0.01	Rejected	Accepted

iv. Regression Analysis of Relationship between Problems Faced by Franchisee due to Lack of Franchise Law in India on the Dissatisfaction of Franchisee.

Dependent Variable : Dissatisfaction of Franchisee			
Independent Variables	Beta Coefficient	t- Test Value	P-Value
Legal Problems	0.603	10.919	0.000
Relational Problems	0.177	3.149	0.002
Business Problems	0.139	2.537	0.012
Trust and Faith Problems	0.046	0.801	0.428
Constant		0.000	
R Square		0.416	
Adjusted R Square		0.403	
F Test Value		34.073	
P Value		0.000	

v. Principal reasons for closure of franchisees

Sr.No.	Principle Reason For closure of Franchisees	No.of Closed down Franchisees	% of Total no.of Closed down Franchisees
1	Mismatched Expectations	38	13.52
2	Low Profitability	65	23.13
3	Improper Location	19	7.76

4	Financial problems of franchisee	18	6.41
5	Lack of support from the franchisor	17	6.05
6	Personal problems of franchisee	41	14.59
7	Franchisee closed due to closure of Mall	18	6.41
8	Strategic decision by the franchisor to close the franchisee	22	7.83
9	Strategic decision by the franchisor to close due to merger with other company	9	3.20
10	Unknown Reason	34	12.10
	Total	281 Nos	100.00%

vi. Critical success factors in Franchising

Descriptive Statistics.				
	N	Minimum	Maximum	Mean
Growth in terms of number of Franchised outlets opened	25	1.00	5.00	2.2000
High level of Cooperation between franchisor and franchisee	25	1.00	5.00	1.6000
High levels of franchisee motivation	25	1.00	4.00	1.9000
Low levels of Conflict between franchisor and franchisee	25	1.00	5.00	1.8000
Sharing of risk between franchisor and franchisee	25	1.00	4.00	2.5000
Adequate support by the franchisor to the franchisees in the day to day operations.	25	1.00	5.00	2.2000
Stricter control of the franchised operation by the franchisor	25	1.00	4.00	1.4000
Low capital requirements for expansion by the franchisor	25	1.00	4.00	2.6000
Deployment of adequate training to the franchisees	25	1.00	4.00	2.1000
High levels of Sales Turnover	25	1.00	5.00	2.3000
Growth in terms of market share	25	1.00	4.00	1.8000
Market penetration of	25	1.00	3.00	1.9000
Customer awareness of your company being a "franchised" Operation	25	1.00	4.00	2.3000

Awareness of your company being a "franchised" operation in the in the	25	1.00	5.00	2.7000
Valid N (List wise)	25			

14. Findings & Conclusions:

Researcher has given a mentioning of important findings& conclusions as follows:

i. Conflicting Issues & Challenges Faced by the Franchisor:

There are several causes of friction/conflicts that exists between the franchisees and franchisors which in case are not properly addressed at the initial stage itself, can have the potential to cause a possible rift between both the partners in franchising. This can further lead to worsening of business relationship between the franchising partners. It was found from the t-Tests which was performed on every parameter under Conflicts category that there is a significant difference of opinion between the franchisees and franchisors about Lack of support, Communication Issus, Misinterpretation of Issus, Compliance with the conditions of the agreement, Training Issues, Territory Issues, Maintenance of quality standards, Marketing issues, Marketing issues, Profit margins, Stock & Supply issues, Fee remittances, Excessive control etc.

ii. Key operational challenges in Franchising:

It has been found that both franchisees and franchisors keep facing certain operational or financial related challenges before and during their firm's operations. It is clearly evident from the research survey that has been done in the past in this context, that increasing rentals keep impacting the overall profitability of the franchisees and so also on the overall business sustainability. On the other hand even the franchisors are concerned about the consistency in the royalty payments by the franchisees in the instances where there are threats to business viability and sustainability. According to the survey, it is indicated that falling profit is one of the principle reasons for the attrition in the franchising business activities. To set up franchised businesses in the selected locations and higher rental payments are the key challenges being faced. Besides these, the other types of challenges being faced by the franchisees are recruitment and retention of the right kind of talent and adequate funding of the business operations.

iii. Legal Issues in Franchising – An Indian Perspective:

Present study has found that with a significant constant value, the factors such as Legal problems, Relational Problems and Business problems have been found to be the significant factors. However, the Trust and Faith problems are found as insignificant factors in the model. Furthermore, all the factors are shown to be having a positive impact on the dissatisfaction of the franchisees i.e. if there is an increase in the Legal/Relational/Business problems then there will be a significant increase in the dissatisfaction level of the franchisee towards the franchised business.

iv. Need for Specific Franchise Law in India:

The present study has made an attempt to prove that India needs its own specific and comprehensive franchise law rather than depending upon multiple laws and their relevant provisions. It has been proved from the research done that there is a significant impact of inadequacy of franchise law in India and the business problems associated with it on the need to have a specific franchise law in India.

v. Success & Failures Analysis in franchising system:

A systematic study pertaining to success & failures happening in franchising business activities has been done by the researcher in order to find out important points which are mentioned below:

vi. Critical success factors in Franchising:

Researcher has found out 14 critical success factors which are very important for getting success in franchising.

vii. Causes of Failure in Franchising:

Researcher has found certain reasons due to which franchise businesses fail and which any entrepreneur should avoid such as - 1.Poor franchise model 2.Unrealistic business plan 3.Insufficient working capital 4. Mismatched Expectations 5. Distracted and unfocused ownership 6. Lack of System based operations in place 7. Poor selection of Location/Site by the franchisee 8. Not Maintaining the SOPs 9. Lack of training and support 10. Inadequate Marketing Program 11. Tighter Profit Margins 12. Exploitative mindset or high-handedness 13.Failure to Follow the System 14.Inadequate demands from franchisees by the franchisors 15.Failure to

Evolve 16.Unwilling to learn on Franchisee's part 17.Over Promising 18.External factors such as Regulatory controls, Industry changes &Volatile and Unfavorable Market Conditions.

viii. Analysis of Non-Operational / Closed Down Franchisees in Pune City and surrounding areas:

Detailed analysis of Non-Operational / Closed Down Franchisees in Pune City has led to the finding that there are close to 5% Non-Operational franchisees in Pune city & surrounding areas with nearly 9.5% closed down franchisees in Education sector followed by about 7.0% closed down franchisees in Retail & Lifestyle sector.

ix. The principle reasons for the closure of certain franchisees in Pune region were found as follows:

1.Mismatched Expectations 2. Low Profitability 3.Improper Location 4.Financial problems of franchisee 5. Lack of support from the franchisor 6.Franchisee closed due to closure of Mall 7.Personal problems of franchisee 8.Strategic decision by the franchisor to close the franchisee 9.Strategic decision by the franchisor to close the franchisee due to merger with other company.

x. Learnings from the real-life stories of franchising business failures:

Researcher has found out learnings from the 5 real life stories in franchising which are worthwhile taking learnings from for minimizing the risks of failures & running franchising business successfully.

xi. Examples of Successful Franchising:

Researcher has given some representative examples in various industrial & business sectors of franchising such as food & beverages, retail & lifestyle, couriers, doctors, chemists, clinical laboratories, beauty parlors, laundries, car maintenance, florists, real estate, even schools, educational institutions etc. who all have adapted franchising business model for their business expansion.

xii. Limiting factors for franchising business activities in India:

The most common limiting factors for the growth of franchising business activities in India are mentioned are found to be - Unavailability of cheap retail space, Political instability, Huge investment, Underdeveloped infrastructures, Unavailability of a proper regulatory/legal

framework/system that protect the intellectual property rights, Contractual obligations to be abided by, Facing the entry barriers, Low income levels of the consumers, Relatively high exit cost, Lacking of the necessary brand awareness among the consumers.

15. Suggestions and Recommendations:

Researcher has given certain important suggestions and recommendations for the improvisation of franchising business performance, growth and its sustenance in India for example; there are many popular local brands that have not yet opted for the franchised system for their business expansion. It is recommended that these popular brands should think of going for franchising way in order to expand and achieve enhanced business growth and profitability. Further, it is suggested that there should be availability of a comprehensive “Franchise Guide and Directory” of all the franchisees and franchisors operative in India , Maharashtra and Pune region separately which will serve as an immense help and ready reference for the new and aspiring entrepreneurs who are willing and planning to set up their franchised outlets.

16. Chapter Scheme:

The entire study is organized in five chapters as – Introduction, Review of Literature, Research methodology, Data Analysis and finally Findings, Conclusions, Suggestions and Recommendations.

Chapter 1: Introduction:

This chapter provides introduction to the study and a theoretical background as well as the conceptual framework of franchising business. It also covers the history, classifications, advantages and disadvantages of franchising, steps in franchising, relationship between the franchising parties, working of the total franchise system. The chapter also highlights the functioning and the state of the franchising business globally, in India as well as in Pune region.

Chapter 2: Review of Literature

This chapter provides Literature Review of the existing available literature related to franchising. The reviewed literature was appropriately presented as per the focused areas of research study. Further, it has also identified the research gaps existing in the franchising business.

Chapter 3: Research Methodology

This chapter gives an elaborated view on the Research Methodology adopted for the

purpose of research work undertaken. An objective oriented Research Methodology highlights various hypotheses incorporated in the study. It has covered the research methodology including the research design, construction of questionnaire, statistical techniques used to analyze the data. Further, it has also stated the significance as well as the limitations of the study.

Chapter 4: Data Analysis and Interpretations

This chapter includes a detailed analysis of data collected through various sources of data collection and interpretation of the results with respect various objectives of the present study. It covers the relevant hypotheses which are tested using the appropriate statistical tools and techniques. This chapter forms the basis of drawing findings & conclusions of the research & further enables the researcher to put forth valuable suggestions and recommendations.

Chapter 5: Findings, Conclusions, Suggestions and Recommendations

This chapter provides the findings and conclusions in accordance with the various research objectives selected for the study. Further, certain suggestions and recommendations are given to various stakeholders of the franchise business system. It further gives a mentioning of the scope for further research existing in this particular area of research.

17. Significance of the Study:

With the advent of Liberalization, Privatization and Globalization, India has opened up its avenues for many foreign companies and brands to enter the country for establishing their business activities. Since franchising is one of the most preferred options for such foreign brands to enter the Indian market scene, definitely there is a need to give it a proper and due attention in India. At present franchising is an upcoming sector in Pune and surrounding areas. Thus, it is needed that this industry and its future potentials should be explored with due care. The present study throws certain amount of light on all the issues relevant to franchising business which may prove to be important for flourishing of franchise business and the acceleration of socio - economic development of Pune region. Further, it can also influence the Indian government to introduce certain important schemes to provide assistance to the individuals specifically the “Youth population” of Pune region having entrepreneurial inclination and mindset to take up franchise route of businesses. The present study may also prove to be of a great help to the Government agencies in framing appropriate policies and regulations relevant to the franchise

business activities in the state of Maharashtra as well as India. Thus, this research study in a way may prove as a pioneering work in franchising business activities in Pune region.

18. Limitations of the study:

Although 100% coverage is not possible due to limitations of time, funding, scope and other obligations, full attempt has been done to give justice to the various franchisee outlets as well as the franchisors. Mentioned below are the brief limitations with respect to the research carried out under this Title of the work.

- i. Due to limitations of the time and due to the wide spread of the geographical area and demographic spread of the Pune region, the researcher has limited the scope of Franchisee selection to Pune City and surrounding areas including areas covering PMC and PCMC (Pune Municipal Corporation and Pimpri Chinchwad Municipal Corporation). Total Area of approx. Length wise approx. 40 Km and breadth wise 25 Km (approx. 1000 Sq. Km) area has been covered in the study.
- ii. Only franchised business models have been studied; there is scope for carrying out further study with respect to Company Owned Company Operated Models (COCO) too.
- iii. The methodology used for the collection of data is by using structured Questionnaire and accordingly further data analysis is done appropriately. The responses given by the franchisee owners and the franchisors are subject to the respondent's level of understanding, knowledge, educational status and the other environmental factor in which the survey was conducted for collecting the necessary relevant data for the study.

19. Contributions of the Study:

The systematic study done in the present research work has been useful and contributed in many ways as follows:

- i. The research study has brought about an in-depth understanding of the growth of franchising business activities in Indian franchising industry with a special reference to Pune city and surrounding areas.
- ii. The study has put forth various conflicting issues existing among various Franchisors and Franchisees in the Indian Franchising business.

- iii. The study has brought out the different ways adopted for the conflict resolution by the franchisors and franchisees.
- iv. This research study has highlighted the understanding of various legal aspects of franchising & legal issues prevalent in Indian franchising industry.
- v. The research undertaken has thrown light on the Success and Failures happening in the Indian Franchising business and its possible reasons and various contributing factors responsible for such Successes and Failures.
- vi. Based on the research outcome the study has contributed by way of giving suggestions and recommendations to the various stake holders of franchising industry in India.

20. Scope for further study:

- i. A detailed and separate study of franchising for each sector like Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education, Support services etc. can be done.
- ii. This study pertains specifically to Pune region. However, further scope exists to carry out research in franchising at state level or National level basis.
- iii. Scope exists to carry out detailed study of franchising in other emerging sectors also apart from the ones selected for the present study.
- iv. There also scope exists for carrying out an in-depth study in legal aspects of franchising business.
- v. There exists further scope for research in managerial policies and practices as well as operational practices adopted in the franchising business.

Mr. Umesh G. Mali
(Research Student)

Dr. Kachardas P. Bairagi
(Research Guide)

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LIST OF ABBREVIATIONS

IFA	INTERNATIONAL FRANCHISE ASSOCIATION
EU	EUROPIAN UNION
EFF	EUROPIAN FRANCHISE FEDERATION
FOCO	FRANCHISE OWNED – COMPANY OPERATED
COFO	COMPANY OWNED – FRANCHISE OPERATED
FOFO	FRANCHISE OWNED – FRANCHISE OPERATED
FDD	FRANCHISE DISCLOSURE DOCUMENT
WFC	WORLD FRANCHISE COUNCIL
FAI	FRANCHISE ASSOCIATION OF INDIA
CAGR	COMPOUND ANNUAL GROWTH RATE
GDP	GROSS DOMESTIC PRODUCT
ROI	RETURN ON INVESTMENT
PCMC	PIMPRI CHINCHWAD MUNICIPAL CORPORATION
PMC	PUNE MUNICIPAL CORPORATION
SMEs	SMALL AND MEDIUM ENTERPRISES
WTO	WORLD TRADE ORGANIZATION
FDI	FOREIGN DIRECT INVESTMENT
SEM	STRUCTURAL EQAUTION MODEL
F & B	FOOD & BEVERAGES
ASEAN	ASSOCIATION OF SOUTH EAST ASIAN NATIONS
B2B	BUSINESS TO BUSINESS
SBA	SMALL BUSEINSS ADMINISTRATION
FTC	FEDERAL TRADE COMMISSION
FCC	FRANCHISING CODE OF CONDUCT
ACCC	AUSTRALIAN CONSUMER AND COMPETITION COMMISSION
NASAA	NORTH AMERICAN SECURITY ADMINISTRATION ASSOCIATION
UFOC	UNIFORM FRANCHISE OFFERING CIRCULAR

EFA	EXPLORATORY FACTOR ANALYSIS
IPR	INTELLECTUAL PROPERTY RIGHT
R&D	RESEARCH AND DEVELOPMENT
USP	UNIQUE SELLING POINT
SBI	STATE BANK OF INDIA
SIDBI	SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA
SSI	SMALL SCALE INDUSTRIES
MRTTP	MONOPOLIES AND RESTRICTIVE TRADE PRACTICES
FEMA	FOREIGN EXCHANGE MANAGEMENT ACT
IT	INFORMATION TECHNOLOGY
PPP	PUBLIC PRIVATE PARTNERSHIP
IIM	INDIAN INSTITUTE OF MANAGEMENT
KFC	KENTUCKY FRIED CHICKEN
ILO	INTERNATIONAL LABOR OFFICE
SAARC	SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION
NRI	NON RESIDENT INDIAN
RBI	RESERVE BANK OF INDIA
PSU	PUBLIC SECTOR UNDERTAKINGS
WBT	WEB BASED TRAINING
MFCW	MAHINDRA FIRST CHOICE WHEELS
B2C	BUSINESS TO CONSUMER
MIDC	MAHARASHTRA INDUSTRIAL DEVELOPMENT CORPORATION
NSDC	NATIONAL SKILLS DEVELOPMENT COUNCIL
QSR	QUICK SERVICE RESTAURANT
SOPs	STANDARD OPERATING PROCEDURES
US	UNITED STATES
USA	UNITED STATES OF AMERICA
UK	UNITED KINGDOM
USD	UNITED STATES DOLLAR

CHAPTER – 1

INTRODUCTION TO FRANCHISING

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1.1 INTRODUCTION: FRANCHISING

According to the Deontological European Code of Honor (2004), “Franchising is a system for the sale of commodities, services and/or the application of technology. It is based on a close and continuing cooperation between juridical independent and financially autonomous companies, namely the franchisor and his individual franchisees.” Here, the franchisor grants the rights to its franchisees and makes them do the business activity in accordance with the specified business concept. In the franchising business system, the franchisee buys the right to market goods or services under the franchisor’s brand name (Blair and Lafontaine 2005; Combs *et al.* 2004a). The franchisee pays an initial franchising fees to the franchisor, stipulated royalties along with the advertising fees. Franchisees, in return get the right to make use of the franchisor’s brand name, the trademark, the know-how, SOPs and other industrial or intellectual property rights etc. Additionally, franchisor supports the franchisee by extending technical assistance and commercial help. There happens to be a well written franchising contract between the franchisor and franchisee encompassing the aforementioned important points.

Buying a franchise means taking over and implementing already proven business model that has been tested in some different area. In the franchising business system, a franchisor sells the rights to make use of an established brand name and business model to its franchisee which is a legally independent entity and in exchange of this, the franchisor receives a share in the profits earned by its franchisees. Franchisors render support and assistance to the franchisees and also educate them during the process of establishing franchised business association. By adopting a proven and well tested business formula, the franchisee thus reduces the associated risks involved while opening a franchised business. This has significantly facilitated start-up of businesses and has increased the chances of success as compared to independent start-up entrepreneurs.

It has been estimated that franchising delivers a better financial performance, a more supportive working environment and/or higher survival chances than alternative organizational forms (Combs *et al.* 2004b; Tuunanen and Hyrsky, 2001).

In the present business scenario, a significant number of international brands are becoming accessible locally and so also the popular local brands are being made accessible internationally through franchising mode. Most of the brands such as, McDonald’s, Domino’s, Pizza Hut, Burger King, Peter England, American Tourister,

Shehnaz Hussain, Eurokids Pre-school, etc. have been made accessible nationally as well as internationally through the franchising mode.

According to the research by International Franchise Association (IFA), franchises in USA in 2011 have achieved revenues of 745 billion dollars and employed 7.9 million people in 75 industries. According to European Franchise Federation (EFF) data, in EU, there were about 10,000 franchise systems in 2010, out of which 80% of the operating franchises belong to the EU franchisors.

It is considered that modern franchising began in the 1950s when I. M. Singer & Co. created a dealership and service network to sell sewing machines to the public. This could be said to be an early development of a franchise network created with an intention to distribute and sell. And before that there was the example of automobile manufacturers and gasoline and the soft-drink companies who used franchising on a regular basis for the marketing of services and distribution of goods.

Today, franchising plays an important role in the economy and it is considered as one of the important expansion modes of business. Franchising has turned into one of the fastest growing business forms from the last few decades and has proved to be of a great help in job creation and overall economic development globally. Starting with food related businesses, franchising has now spread to retail operations, automotive industry, education and recently in health related services as well as support services.

Franchising has become an accepted strategy for business growth, job creation and economic development. It is now a recognized as a reputable way of doing business. Franchise business systems is prevalent in most industry sectors of economy. Further, the economic impact of franchising has been found to be substantial and ever growing.

1.2 HISTORY OF FRANCHISING

Historically, the word 'Franchise' is derived from an Anglo-French word which is called as "Franc". It means "privilege" or "freedom" or holding a particular privilege or right (Williamson, 1992). Further, it has been clarified as 'free from the slavery.' Franchising offers the people the necessary freedom to own, manage and give direction to their own business.

In the Europe during the middle ages, the local ruler/lord used to grant rights to someone for holding the markets or fairs in his own territory. This meant that, the local lord

granted someone the rights for carrying out a certain kind of activity. In fact they can be said to be the very first franchisors.

Franchising is a system developed from USA (United States of America) where it was initiated by fast food industry. Today, franchising is used worldwide by entrepreneurs to expand their business in domestic as well as foreign countries. Although the method has been developed and refined in the USA, franchising has been in practice in many other countries since the twelfth century. The first franchise originated as far back as in 12th century when King John of England granted franchises to his barons to collect taxes. During this time, the officials from the churches in England used to be the king's franchisees.

Later, in the 13th century it existed in restaurants of China, where there were agreements made for renting out the tables.

Further, in the 16th century it was observed that the former employees in Japan were allowed to open independent branches in return for royalty.

During the 18th century, a concept known as "Tied house" was started by German brewers. As per this system, the Taverns and inns stocked a particular brewer's product named 'Spaten' in return for a payment against right. Then onwards, the 18th century was marked as the official beginning of franchising with its origin being traced in USA.

The franchising as a concept has been first introduced by Mr. Isaac Singer who had invented the sewing machine way back in the year 1858. When Isaac Singer invented the Singer Sewing Machine, he faced ample difficulties in order to distribute his product to public. Other problems such as lack of capital for manufacturing the machines and unwillingness of public to buy these machines due to lack of knowledge to operate them were also posing a threat to the success of his company. Isaac Singer came up with a solution to all these problems in the form of franchising. He made an agreement with retailers in different territories where these retailers were given the rights to sell the sewing machines and they had to pay the Singer Company, a charge against this right. These retailers were also made responsible for teaching the operation of the machines to the consumers. A legal system selling the right to distribute the service or product was born in order to seek for a solution to distribute the new machine with people trained to use the machines, which led to the formation of first franchise contract. These strategies helped the company to create sales opportunities and overcome their financial as well as

marketing problems. Isaac Singer is considered as the father of franchising. Many other companies began to follow and consolidate his business model.

In 1898, General Motors of USA started a franchise network for distribution of their automobiles.

In 1901, Coca-Cola started franchising its bottling plants as the company faced financial crux. They granted the franchises of manufacturing to the existing bottling plants and charged a fee for the same.

In the year 1952, Harlin Sanders, the owner of Kentucky Fried Chicken (KFC) used this system of business. He taught the roadside restaurant owners his cooking techniques and thereafter charged five cents for each bird that was cooked by using his method.

Year 1953 was another remarkable phase in the history of franchising. During this phase McDonald and Burger King which were two established Food & Beverages brands in USA took franchising to a new level. These companies created some of the largest franchise networks in the world. McDonald is believed to have taken the lead in propagating the business format of franchising in the USA and rest of the world.

Further, in the year 1987, NIIT which is a leading computer institution tried its fortune on franchise method of business thereby spreading its network of training centers across India and overseas.

Not just in USA, franchising has spread its tentacles in other nations also. Franchising in France can be observed since the earliest years of the twentieth century, and gained momentum in the 1960s with the development of hypermarkets and the shopping malls that typically surrounded them.

Various industrial sectors of economy have been adopting franchising as safer, economical and convenient mode of business expansion. During 1990's franchising had started emerging in food and beverage sector, retail & lifestyle sector and pre-schools (education) sector. In the present business scenario, franchising has been shown to have grown in other sectors of economy as well such as beauty and wellness, healthcare and other support service sectors such as financial services, travel and tourism, telecommunication, courier services, hospitality, laundry etc.

The spread of franchising has been slow and steady in the beginning but now it is spreading at a faster rate. Coca cola, Domino's, Pizza Hut, Holiday Inn etc. are all expanding steadily by keeping franchising as a medium. For example, Mr. Ray Kroc, founder of MacDonal'd's, had taken a smaller sized franchisee in the year 1955, and over the past several decades he had built the chain of restaurants and had grown it to be

recognized worldwide as the most successful fast food franchise giant in the world known as McDonald's. Today McDonald's is the world's leading food service retailer, with more than 33,000 local restaurants serving over 64 million people in 119 countries. More than 75 per cent of McDonald's restaurants globally have been owned and operated by the independent local entrepreneurs.

1.3 CONCEPTS OF FRANCHISING

Franchising is essentially the practice of making use of another established company's successful and proven business model. The word 'franchise' is derived from Anglo-French 'franc' which means 'free', and this word can be used both ways as a noun and also as a verb. Franchiser is the owner of an established business, wishing to expand the business through a franchise. Franchisee is any entrepreneur looking to start a business; with a franchise, the franchisee can quickly get into a model of an established business, while reducing the risk and increasing the Return on Investment (ROI). Franchising means that a franchisor sells the rights to use an established brand name and business model to a franchisee that is legally independent; in exchange the franchisor receives a share of the profits. By applying a complete and well tested business concept, the franchisee thereby minimizes the risks associated with opening a business (Roh and Yoon, 2009).

A franchising chain is not solely composed of the franchisor and his individual franchisees. Most franchising chains adopt a dual distribution strategy, also referred to as the plural form, meaning that the chain is made up of both franchised and company-owned units (Srinivasan, 2006). Among the franchisees, a distinction can be made between single-unit and multi-unit franchisees. Multi-unit franchisees own more than one unit and only franchisees that excel in their activities are granted the possibility of unit growth (Bradach, 1997). Other possible members of the bounded franchising network are the master franchisees. When franchisors expand their business in other countries, they can assign a master franchisee who signs franchise agreements on their behalf with sub-franchisees in a specified territory. Master franchisees receive the responsibility to select other franchisees, to offer training, to coordinate activities with local franchisees, to monitor performance and to implement the franchisor's strategies (Shane, 1998).

Thus, in a nutshell, franchising is a business system wherein the franchisor grants a license to the franchisee to use the franchisor's diverse intellectual property rights, namely, knowhow, designs, brands, trademarks, patents and the trade secrets along with the franchisor's product or services in return for a sum of money. Further, the franchisor also provides training and continuous assistance to the franchisee. In return, the franchisor gains rapid expansion of business and earnings at minimum capital investments.

The franchisee usually pays its franchisor, a onetime franchise fee plus a percentage of sales revenue as royalty and in return franchisee gains:

- i. Immediate name recognition
- ii. Tried and tested products
- iii. A standard building design and décor.
- iv. detailed techniques of running and promoting the business.
- v. Training of self and employees and
- vi. An ongoing help in promoting and upgrading of the products.

1.4 DEFINITIONS OF FRANCHISING

Franchising is a successfully proven method/formula of producing or distributing the products and/ or services to its customers. There are many definitions of a franchise. All these definitions describe the comprehensive relationship in which one party, the franchisee, gets the right to operate a business, selling products and/or services produced or developed by the franchisor, under the franchisor's business format and identified by the franchisor's trademark. Different authorities have defined franchising wherein each of the definitions goes on highlighting some or the other characteristics or peculiarities of franchising. Given below are some of these definitions of franchising that mainly highlights the specific nature of the concept.

Hayfron et al., (1998) defined the franchising as “the granting of a license by one party (the franchisor) to another (the franchisee) which entitles the latter to customize, manufacture, market, distribute and/or support goods and/or services, whereby the franchisor agrees to provide central commercial and technical support, and imposes the obligation to conduct a business in accordance with the franchisor's concept for the term of a written franchise agreement”.

The company that grants the independent operator the right to distribute its trademarks, products or techniques is known as the “franchisor”. The independent, third-party business

person distributing the franchisor's products or services through retail or service outlets is called the “franchisee”. In simple terms, the franchisee and the franchisor work together as the franchisee owns the outlet they run and the franchisor looks after the marketing and other business ideas to be used for the products or services to be sold. In almost all cases the franchisor holds the intellectual property right of the product or the service.

Various Definitions of Franchising are as mentioned in following paragraph:

i. Webster’s Dictionary defines “Franchise” as,

a. A privilege or the right that is granted to a individual or a group by the government, the state or the sovereign.

b. An authorization that is granted by the manufacturer to a distributor or a dealer to sell his products.

ii. Business Dictionary defines franchising as an “Agreement where one party (the franchisor) grants another party (the franchisee) the right to use its trademark or trade name as well as particular business system and its processes to produce and market goods or services according to the certain specifications.”

iii. ‘The International Franchise Association’ (IFA), has been in existence since 1960. It comprises franchisees, franchisors and suppliers which is the major trade association in franchising, **defines franchise as** a “continuous relationship where the franchisor provides a license to the franchisee, to do business and also provides the assistance in organization of various operational requirements, trains the franchisee and his employees, supports in merchandising and management, in return for a franchise fee or the royalty”. It further mentions that franchising is considered as a continuous relationship between these two franchising parties having the specific responsibilities to be carried out. The franchise contract/agreement is the foundation of such relationship between the two partners thus getting involved in the franchising process.

iv. Hoffman & Preble (2004) defined franchise system as a business relationship whereby a franchisor grants a right to a franchisee, to conduct business using the trademark of the franchisor through an agreement that stipulates the restrictions and requirements as well as the conditions of doing the business.

v. Phillip Kotler, the marketing Guru defined franchising as "Contractual association between a franchisor (a manufacturer, wholesaler or service organization) and franchisees (independent business people who buy the right to own and operate one or more units in the franchise system).

vi. Winsor (1998) defined franchise as a privilege granted or sold, such as to use a name or sell products or services.

vii. Beshel (2001) defined franchising as a legal arrangement or license between two parties in which one party the seller known as franchisor gives another party the franchisee/buyer the right to market a product or service using the trademark or trade name or operating methods of the franchisor.

viii. Otokiti (2004) defines franchising as the business arrangement that involves the franchisor to grant the franchisee the right to do business over a certain period of time in a prescribed manner and in a specified way.

ix. Abdullah, Alwi, Lee and Ho (2008) have summarized the definition of franchising as bestowing a right to clone a tried and tested service.

The all of the above definitions gives enough clarity of the various dimensions of the franchising concept.

1.5 IMPORTANCE OF FRANCHISING

Franchising is a readymade business available to the entrepreneurs. Thus, it is an attractive proposition as against starting an enterprise from scratch. The franchisee gets a semi-established business from the day one. In US where there are more than 2000 franchising companies with over 5 lakh franchisee and franchisor operated outlets, working in a franchise business is the first job for many young people. Franchising constitutes more than one third of retail sales. Even a country like Australia has 750 franchise systems with approximately 50,000 franchised outlets employing over 6.5 lakh people and franchising has created over 4600 new business in one year. In a small country like New Zealand 70,000 people are working in 14000 franchised outlets that account for an annual turnover of NZ \$10 billion. Presently franchising is a strong force in USA, Canada, Japan, Europe and Australia. It is rapidly developing in South America, Middle East countries, China, Pakistan and India. The franchisees have a low risk of failure as compared to independent business. As per study in USA, of the retailers who were in business in 1987, 23 percent of young franchised retailers had failed by 1991 as against 45 percent young independent retailers. However a recent survey in New Zealand reported the failure rate of franchise units over a three years period as less than 6%. This low failure rate indicates a very high success rate for franchising.

1.6 REASONS FOR GETTING INTO FRANCHISING

According to a report published in Black Enterprise (Thompson, 1991), there are several reasons why an entrepreneur choose franchising format. First reason is that they perceive less risk involved in setting up of business. They found that chances of a franchise business to survive over consecutive two years is 94 per cent as compared to 43 per cent for independent entrepreneurs. Franchisees also expect to get training, which otherwise is hard to earn. They get to know all the operation formats before they actually begin. An already established brand is a plus to it because franchisor had already spent a lot on marketing and advertising. Along with this, any time support and ongoing help is a relief in case of emergency. Thus, it is a win-win situation for franchisee to get a franchised system rather than starting from preliminary stage.

Franchisors and franchisees are driven by different motivations. The former are driven by the need to expand their business and to make their brand name popular while the latter are driven by the desire to have and run a business and to get self-employed (to certain extent).

Franchisor's and Franchisee's reasons for motivation for Franchising are shown in Table 1.1 as given below.

Table 1.1 Franchisor's & Franchisees's Reasons for Motivation for Franchising

Sr.No.	Franchisor's Reasons for Motivation for Franchising	Franchisee's Reasons for Motivation for Franchising
1	Talent Acquisition	Higher Profitability & Better ROI
2	Capital Constraints	Good Learning Experience
3	Higher RoCE for the Franchisor.	Higher Growth & Expansion Opportunity
4	Quicker Time to Market	Investor Friendly
5	Value Creation	Lesser Risk than a new Start-up
6	Higher Profitability	Franchising is a safe, best & easiest way to start a business.
7	Uniformity in Quality	Product & Service Quality is assured
8	Scale Building	Business growth & expansion by knowledge sharing
9	Brand Building	Association with a proven brand

Source: Secondary Data

Franchising is also termed as a licensing agreement where the franchisor gives permission to the franchisee to use his trade and get royalty in return (Jauhari, Vaishnav, & Altinay,

2009). The reasons to form such an alliance is to gain economies of scale, sharing development and research costs, innovation and market expansion. Franchisees reduce a considerable amount of risk during their turbulent years of business startup.

Following are few reasons for the rising popularity of franchising business among current entrepreneurs:

i. There's less risk involved as compared to other mode of businesses while starting the business from scratch. According to a research study published by International Franchise Association (IFA), the chances of a franchise survival for over two years are 94%, as against that of 43% for an independent business entity.

ii. Franchisees receive individual training from its franchisors in all aspects of running the profitable franchised business. The training programs are designed and are varied from case to case.

iii. In the franchised system, the brand value/image and brand reputation in the marketplace has already been proven/established. For example, in the year 2012, McDonald's Corporation had spent more than 2 billion USD globally on advertisement as well as promotional activities to boost company's brand visibility.

iv. Ongoing managerial and technical assistance is of paramount importance for all the business format franchised systems. Such type of assistance/support thus differentiates this model of franchise from the product or the trade name franchisees.

v. Even though fast food sector is remaining to be synonymous with the franchising system, service based franchisees specifically in health care, home decoration, tours & travel agencies and photo copying services, are showing significant presence in the streets and shopping malls of the USA. Moreover, service-oriented firms are leading the growth and expansion in franchising business for the last few years. Now growing number of SMEs have started recognizing that franchising is the most viable method owing to the availability of necessary fund requirements from the various financial institutions and also because of the improved awareness.

1.7 FRANCHISING AS A GLOBAL BUSINESS GROWTH AND EXPANSION STRATEGY

With the advent of Liberalization, Privatization and Globalization the world market has become more complex and competitive with respect to the business dynamics. It's a challenging task to survive, grow and sustain while maintaining the desired profitability

out of the business venture. In such market scenario, franchising is of vital importance for the entrepreneurial ventures.

The franchising concept happened to be the most popular and well developed business strategy in many countries. Franchising has been showing the positive impacts and also the positive economic motives have been proved to have been boosting the economic growth of the nation. In the last four decades it has developed significantly as an organizational form (Grewal et al., 2011) chosen strategically by the organizations so as to compete in the industries requiring highly decentralized operations at a chain of multiple sites (Michael, 2000). It has now turned out to be a well-accepted organizational form, representing one of the fastest growing methods of doing business adopted in over 50 different industries globally (Combs et al., 2010; Di Pietro et al., 2007b; Shane and Foo, 1999). Franchising has become a key mode of expansion for US and European firms in international markets, with over one million franchisees worldwide (Michael, 2003). Franchising necessarily involves the capital decentralization through the introduction of more number of independent franchisees (entrepreneurs) to have operations in the marketing and distribution of products and/or services in a way to minimize the concentration of capital. The operational costs are also minimized because of stricter business specialization as well as standardization.

Business format franchise system makes it easier for companies to diversify their business internationally and is less exposed to the problem associated with conventional business such as staff recruitment and retention and the security of stock and cash (Ike-Okah, 2006). Entrepreneurs using franchising as business expansion strategy are making big profits and are gaining even stronger brand names through it. The success of McDonald's restaurant, Domino's Pizza and Subway round the globe bears the well understood testimony to the appropriateness of this (franchising) as a business expansion vehicle. Governments of many countries while realizing the benefits offered by the franchising industry are continuously improving their country's business environment to attract high quality franchises (Welsh et al., 2006).

1.8 FUNCTIONING OF FRANCHISING

Franchising concept essentially works by replicating a successful and proven business model across multiple locations through a network of entrepreneurs. The person who develops the business format, known as the franchisor, grants the access to his

business name, goodwill and business model to another person, known as the franchisee in return for a certain fee. This ensures that the franchisor can extend his reach without having to invest substantial amount of money in new markets. The franchisee on the other hand gets benefitted by having a readymade business model with access to backup facilities like training, marketing tools, technology etc. Franchisee hence benefits from the security provided by a tried and tested business model.

Many variations of franchising model exist within the sector. Some of the more popular ones include Master Franchisee, Area Development Rights and Unit Franchise. India has seen the emergence of other models also like Joint Venture cum franchise agreement, Management Contract etc.

Franchising works on three main ingredients:

- i. The product or a service to be sold.
- ii. Operating system.
- iii. Marketing the brand.

1.8.1 The Product or Service to be sold

The product in franchise means a combination or a package of tangible item with the quality of service to sell it, the ambience of the place where it is sold, the after sale service, the process of sales, attention and interest shown by the seller and his employees at the franchise outlet, etc. Standardization is the main factor that decides the success of any franchise. Customers see the franchisee as a replication and as a clone of franchisor.

1.8.2 The Operating System

The operating system of a franchise means the design or the methodology that is being implemented in the proper functioning of the franchised business. A well planned, well executed, duly tested and successfully proven business system as opposed to that of under planned and weaker operating system leads to making a significant difference between the successful and failed franchisees. It encompasses all operational details of activities to be carried out by the staff of the franchisee. A good operating system covers all aspects of transfer of knowledge from the franchisor to the franchisee. Quality control of the product and the service at the outlet are built into this operating system. The feedback mechanism and financial control form the backbone of a good system.

1.8.3 Marketing the Brand

Brand assumes vital importance in any successful franchise business venture. Consumers have a strong tendency of associating certain brands with certain products and for them brand value of the product or services are a kind of promise that the firm makes in order to satisfy the needs and desires of the customers. A well established brand image is a step towards healthier and sustainable growth for any firm. Franchisor is supposed to be providing necessary marketing services to its franchisees for getting efficient business performance. Similarly, the franchisee should take enough efforts in advertisement of the brand of its franchisor and thus keep-up with the brand value/image that has been promised of the brand.

1.9 THEORIES ASSOCIATED WITH THE FRANCHISE BUSINESS

The franchise system of doing business is associated with numerous theories depending on the salient features of franchising. Some of the theories associated with franchising are Resource Scarcity Theory, Agency Theory, Exchange Theory, Signaling Theory, Risk Sharing Theory, Specific Knowledge Theory, Transactions Cost Theory, etc. Each of the theories stated above has its own contribution to the franchise business and relate to certain specific issues occurring during the operations of franchise business.

1.10 CATEGORIZATION OF FRANCHISES

Franchise may be broadly categorized into three groups as mentioned below:

- a. Based on the type of franchised business.
- b. Based on the extent of territory/number of franchisees allotted.
- c. Based on the nature of control exercised over the franchisees.

1.10.1 Based on type of franchise business

Depending on the type of franchise business between franchisor and franchisee and the nature of the business, following types of franchises may exist.

1.10.1.1 Product Distribution or Trade Name Franchise

Product distribution franchises involves the supplier and the dealer relationships in which the franchisees sell the franchisor's products or services. In product distribution franchising, the franchisors grants the franchisees the necessary license of its trademark

and logo instead of the complete system for running their business operations. Franchisor regulates how their franchisee's store functions and works. Franchisee pays certain fees and the product of franchisor is distributed and sold. The examples of most common types of product distribution franchises are - soft drink dealers, automobile dealers and filling stations, tyre stores distributors etc. In this type of franchising, franchisee gets exclusive territory rights; franchisor trains franchisees for effective sales and marketing strategies and usually demands that franchisee should exclusively sell his products only. Although, the largest percentage of retail sales is constituted by product distribution franchising, most of the franchises currently operating involve business format franchising.

1.10.1.2 Business Format Franchise

Business format franchising provides a deal where-in franchisor sells the concept of business and franchisee gets trained and ongoing business support from franchisor to run the business, as in service industry (Pitegoff, 1989). Business format franchises not only makes franchisors to offer product, service and trademark but also the complete method to conduct the business operations like manuals and marketing plan (Beshel,2001). This is a legal agreement between the two parties that sets obligations for both of them for conducting the business. This type of organizational form involves selling a product or service or using the brand name developed and owned by the parent organization (the franchisor) to a local outlet (the franchisee). In return the franchisees pay a lump sum payment and an annual royalty fee based on sales generated for a specified period of time to use this intellectual property (Miller and Grossman, 1990). It does not only involve selling of brand but other services needed to open the outlet like training and blueprints for the production process, and sometimes support for site selection or construction management. Once the contract is signed and outlet is opened, the franchisor company generally supports the franchisees significantly in the beginning and to run their businesses. The franchisor takes the periodic review of the franchisee's performance. Fast food restaurants chains are the classic examples of this type of franchise. Prominent examples include McDonalds, Burger King, and Pizza Hut.

1.10.1.3 Manufacturing Franchise

This type of franchise arrangement gives the right to the franchisee to manufacture the product that is originally belonging to the franchisor. Here, the franchisor transfers the technological knowhow, method, process tips, etc. along with the brand name trademark and logo to the franchisee so that franchisee can manufacture the product at his site and sell it to the consumers. Companies such as, Coca-Cola is the type of manufacturing

franchises. Franchisees are responsible to take care of the quality of the product that they manufacture.

1.10.1.4 Business Opportunity Ventures

In this type of franchise system the franchisor makes the franchisee to buy the products which he is supposed to sell only to a specific company or vicinity. For example, a vending machine of, 'Coffee Day Express' installed in a hospital or any manufacturing company or a bank.

1.10.1.5 Mobile Franchising

In this type of franchising, the franchisee visits different territories with a vehicle carrying the products or offering the services to the public. It is a popular method used by food and beverage sector. For example, Kwality Walls Ice-cream has its mobile carts moving on beach sides and roadsides.

1.10.2 Based on the Extent of Territory Allocated or Number of Franchises Granted.

Franchising helps to expand the geographical boundaries for one's brand. Thus depending upon what the brand owner intends as far as geographical coverage is concerned, following types of franchising arrangements may exist.

1.10.2.1 Single Unit Franchise:

In this type of agreement the franchisor grants the right to the franchisee to operate only one unit. However, if the franchisee wants to start another unit in other territory he/she has to buy another separate franchise. A franchisor may ultimately have many unit franchises.

In a single-unit franchise system, one person buys a store from the main company and operates it according to the company's rules. Operating single unit store at a time is a better choice for the new business entrepreneurs. Some successful operators of one store eventually buy more stores.

1.10.2.2 Multiple Franchises

The franchisee that buys many single unit franchises and operates them in different territories is known to have a multiple franchise. These types of franchises have separate agreement for every separate unit of the franchise.

1.10.2.3 Area Development Agreements

Under this type of franchise system, a franchisee takes the franchise of opening a decided number of unit franchises in a given territory. Here, the franchisee acts as an area developer. The objective is to develop the marked territory. Such franchisee need not

operate and manage each and every unit in that area himself. He/she may start the unit and the unit may be given to be managed by other person/group or may be managed by appointing staff. This mode of franchising appears similar to the multiple franchising agreements. However, the main difference is that, the area developer concentrates on a particular territory only whereas, in multiple franchising, a franchisee can open an outlet in any area.

1.10.2.4 Master Franchise Agreements

This is a method by which brand can be globalized. It is a mode of international franchising. Here, the franchisor finds a sub-franchisor in another country and gives the right to open franchise outlets either by himself or by granting the rights to sub-franchisee. In this type of franchise there are two separate agreements involved. One is the international agreement between the franchisor and the sub franchisor and other, the agreement between sub franchisor and each of the sub-franchisees. These agreements are known as Master franchise agreement and Sub franchisee agreement respectively.

The master franchise is a popular way to spread local businesses to international territories. This method allows one entity to find many franchisees in an overseas area. The master franchisor is responsible for training and providing support to the new franchisees within the large area, which can include an entire country. Master franchisors often establish training centers for new franchisees.

1.10.2.5 Regional Franchise

If franchisor or master franchisee considers that it is commercially correct to further divide the geographical area with the separate “regions” and grant a Master franchise for each separate region then this would be termed as Regional franchise. This type of franchise arrangement is feasible only if the total area to be covered is large for one Master franchisee.

1.10.3 Based on Nature of Control over Franchisee

This classification is based on the intention of the franchisor regarding the extent and type of control that he is interested in maintaining over the operations of the franchisee.

1.10.3.1 Direct Franchisee

In a direct franchise the franchisor has a brand which he wants to sell in the domestic market and if he finds the franchisee a worthy person then the franchisor may grant a right directly without much bothering about the law and jurisdiction for agreement issues. This type of franchise is normally granted at the state level or local level. This mode is not feasible for international brands as the other country legislations have to be

considered. Direct Franchising is the best way to ensure good relationship between franchisor and franchisee. The franchisor sells the franchise directly to local entrepreneurs (franchisees).

1.10.3.2 Broadband Franchising

In broadband franchising, the franchisor assumes all obligations, responsibilities, risks and rewards of a number of single unit franchises. It is a concept where a single franchisor manages and supports thousands of franchisees by appointing staff to serve those franchisees.

1.10.3.3 Fractional Franchising

It is also called as 'franchise within a franchise'. In this type of franchising, one franchise is placed within another franchise. Two franchise units can be owned by one franchisee or by two separate franchisees.

1.10.3.4 Cross Franchising

Cross franchising is a concept where a single franchisee owns two separate franchises from two different franchisors. A franchisee may take separate franchise of similar products or different products. A cross franchise can be also one brand of product and another of service.

1.10.3.5 Subsidiary and Branch Office

A franchise can even be a subsidiary or a branch office. There is a minor difference between the two. A subsidiary, although controlled by the franchisor, is a separate legal entity whereas a branch office is not. This mode of franchising is usually used for international franchising where the franchisor appoints a subsidiary or a branch office in any territory of foreign country as a sub franchisor. The sub franchisor is also given the right to grant franchise in the area allotted to him.

1.10.3.6 Joint Venture

This method is also available to the franchisor in case of international franchising. Here the franchisor enters into a joint venture with the local partner in a selected geographical area. A joint venture is the one, where two parties come together to work on one single project.

1.10.3.7 Turnkey Franchise

In this type of franchising, the franchisor supports the prospective franchisee till the franchise unit is established. He then hands over the established unit to the selected franchisee after providing him the necessary training.

1.10.3.8 Affiliation or Conversion Franchising

In this method of franchising, the franchisee is allowed to use his existing trade name along with the franchisor's brand. This mode of franchise is usually adopted in Real Estate brokerage and the lodging industry.

1.11 BUSINESS MODELS IN FRANCHISING

While majority of franchisors adopt the Franchisee Owned and Franchisee Operated (FOFO) model for expansion, few franchisors have also mentioned the need for coexistence of Company Owned Franchisee Operated models (COFO). This was particularly necessary in high streets of metro cities where the rentals negatively impact the business viability for the franchisee. Also there are cases where franchisors want to have a few large format flagship stores. In both these cases, franchisors preferred investing initially.

Below are the major Franchising Models:

- i. Franchise Owned – Company Operated (FOCO)
- ii. Company Owned – Franchise Operated (COFO)
- iii. Franchise Owned – Franchise Operated (FOFO)

1.12 DIFFERENCE AMONG FRANCHISING, DISTRIBUTORSHIP AND AGENCY

The terms franchising, distributorship and agency are often used as synonyms by the laymen. In reality, there exists a difference among these three concepts. Distribution and agency are the traditional forms of distributing goods or services to the consumers. These two forms of business do not allow the principal to exercise any real control over them. Franchising differs from the distribution and agency in respect of the extent of control that a franchisor can have on the operations of a franchisee in a given franchise. A franchisor can intervene and have a control in all major issues of franchisee unit such as in branding, methodology of business, further mergers and even to the extent of interiors of the franchisee unit.

1.13 STEPS INVOLVED IN FRANCHISING

Franchising business is a two dimensional process namely:

1. Franchising - From Franchisor's Perspective (The franchisor's point of view).
2. Franchising - From Franchisee's Perspective (The franchisee's point of view).

1.13.1 Franchising - From Franchisor's Perspective

The process of becoming a franchisor is considerably a long one. It involves lot of cost as well as time. Following figure 1.1 reflects the important 7 steps involved in franchising business from a franchisor's perspective.

Figure 1.1: Franchisor's Perspective of Selling a Franchise



Source: Secondary Data

The above diagram has shown seven different levels in the process of establishing franchising. Each one of the above steps involves certain considerations which are explained as under:

1.13.1.1 Evaluate if your Business is ready for Franchising:

This meant that, one should notice whether one's business concept is worthwhile franchising. The concept has to be such that it keeps appealing to both the franchisee as well as the consumer. This concept should give due consideration to the economies of

scale and increased profitability. Further, an entrepreneur should conduct a market research to ascertain whether there will be widespread consumer demand beyond the local area that the business serves at present.

1.13.1.2 Learn the Legal Requirements:

Franchise business legalities are many folds. The entrepreneur has to understand various clauses of the relevant Acts and Laws. There are a number of laws that affect franchise business such as Contract Act, Intellectual Property Act, Consumer Protection Act, etc. In some countries where there exists a franchise law, the entrepreneur has to make the FDD (Franchise Disclosure Document) if he is interested in franchising his business.

1.13.1.3 Make Important Decision about your Franchise Model:

An entrepreneur should decide his modus operandi in order to operate as a franchisor. While developing the franchise model, an entrepreneur has to consider a number of underlying issues which are as mentioned below:

- a. The franchise fees and royalties.
- b. Terms of franchise agreement.
- c. Size of the geographical territory allotted for the business.
- d. Type and length of the training programme being arranged to the franchisees.
- e. Conditions of buying products and the necessary equipment.
- f. Nature of the franchisee granted i.e. whether it will be a unit franchisee, master franchisee or some other type of franchisee.
- g. Products those are allowed to be sold and many other such issues as required by the type of business to be franchised.

1.13.1.4 Create Needed Paper Work & Register as Franchisor:

Once the entrepreneur goes for making a decision to franchise the business, he can start with preparing for the the paperwork which is required to fulfill the necessary legal requirement such as making the Franchisor Disclosure Document (FDD) and Franchise Agreement/Contract, printing of the information brochures, etc. Further, the entrepreneur should proceed with registering himself as Franchisor in order to make a further move accordingly.

1.13.1.5 Make Key Hires:

This is needed as an entrepreneur alone cannot market his franchise. He needs people and managers who could build up a team and market and manage the franchise requirements.

1.13.1.6 Sell Franchises:

This is the most challenging stage where entrepreneur and his team has to find the most worthy franchisee and convince him/her to buy the franchise.

1.13.1.7 Support the Franchisee:

Once the franchise is sold to any individual or group, the franchisor has to support that party in terms of initial training, continuous knowledge, marketing support, advisory services, etc.

1.13.2 Franchising - From Franchisee's Perspective

Once a person wants to be an entrepreneur he has to first decide on a main issue; that is, whether to take a franchise or start one's own business. In this situation the individual has to evaluate different factors associated with the prospective business idea. These factors may be investment returns, payback period, extent of control on business growth prospects, acceptability in market, etc. However, following steps could be followed before buying franchise.

1.13.2.1 Study the Field:

The prospective franchisee should thoroughly study and gather information about franchising mode of doing business.

1.13.2.2 Assess the Self Strength:

An individual should evaluate himself/herself in finding out the positive features he/she possesses as required for being a good and successful franchisee.

1.13.2.3 Plan for the Required Resources:

Considering the proposed franchise option, one has to calculate the required investment in equipment and assets, the franchise fee, royalty payments, operational expenses, etc.

1.13.2.4 Finding the Truth:

Buying a franchise by wholly believing the words of the franchise sellers alone is not appropriate. He should find the facts about the franchisor from his other existing franchisees, if any.

1.13.2.5 Consider and Read the FDD:

The FDD (Franchise Disclosure Document) offers a gold mine of information like bankruptcy filings by the franchisor, litigations involving the company/its executives, type of training that franchisor will provide, common expenses, etc.

1.13.2.6 Hire Professional Help:

It is required that before buying anyone's portion of business, one should know the financial position of that business. If one is not an expert in understanding the financial aspects, it is always advisable to hire a competent professional accountant. Similarly, an advocate to guide on legalities of a business also needs to be consulted.

1.13.2.7 Practical Exposure:

This is one of the best ways to see how a franchised business works from the inside and whether one's personality matches with the target company culture.

1.13.2.8 Cost and Benefit Analysis:

Comparing the cost involved and benefits associated with the franchise is an important step. Benefits need not be only in terms of returns on investment. There may be numerous other gains monetary as well as non – monetary.

1.13.2.9 Enter Into a Deal with the Franchisor:

Finally, buying a franchise by signing an agreement with a selected franchise.

1.14 Five Steps of Evaluating a Franchise

The success of franchising sometimes has attracted some inexperienced and occasionally fraudulent franchisors. In USA a law was enacted in 1979 to protect the consumers from fraudulent franchisors. Here in India there have been several fly by night franchisors, who had advertised very aggressively, build hype about their business, sold a number of franchises, collected fat franchise fees from them and then vanished in thin air leaving the franchisees high and dry. Yet there is no specific law governing the franchising in India. Hence it is more important for a prospective franchisee to be cautious and evaluate the franchisor before buying a franchise. Here is an outline of a simple process for evaluating a franchise and protecting the investments. The process is not foolproof and misjudgments can still occur. However following this process helps avoid disastrous mistakes being made by the franchisee. The five steps are to assist in finding a suitable franchise that has a potential for financial success. These are important elements of conducting a thorough due diligence process. These steps are as under:

- i. Examine the opportunities
- ii. Examine the franchise and the franchisor
- iii. Analyze and evaluate the information provided by the franchisor

- iv. Investigate the franchisor
- v. Make a decision

1.15 Important Information an Entrepreneur Should Seek from a Franchisor

- i. Financial statement of the franchisor for at least previous three years.
- ii. An item wise estimate of franchise's initial investment i.e. opening inventory, working capital, fixed assets, real estate expense, furnishing, decor etc.
- iii. Information about the initial franchise fee and other payments including security deposits that may be payable.
- iv. Royalties and profit sharing arrangements.
- v. Detailed copies of all agreements including legally binding documents that the parties are required to sign.
- vi. Audited performance data e.g. sales volume, costs and profits.
- vii. Support services to be provided by the franchisor i.e. training of staff, merchandising and advertising programs, equipment purchase or lease option, on site constancy etc.
- viii. A list of names and addresses of other franchise.

The entrepreneur proposing to buy a franchise should thoroughly study these documents and critically evaluate the franchisor. Although the information provided by the franchisor is essential for evaluation of the business proposal, still it is generally not sufficient for signing the contract. The entrepreneurs (prospective franchisee) are advised to conduct their own market survey to satisfy themselves about the soundness of the business proposal/prospects. It is advised that wherever the entrepreneur has a choice to choose between two or more franchisors for similar product/service, the comparative data be studied and used for negotiations with the franchisors suitably.

The entrepreneurs negotiate with the franchisor with all these evaluations. Some terms like franchise fees, royalty, inventory, brand management, use of patents, trademarks etc., are generally not negotiable.

The final step before signing the franchise agreement is to get the negotiated proposal scrutinized by an experienced chartered accountant or an attorney. The lawyer should inform the entrepreneur about his legal rights before he signs the agreements that are normally prepared by the franchisors.

1.16 FRANCHISOR – FRANCHISEE RELATIONSHIP

Franchising is a relationship between two the two partners, one is the franchisor and other one is a franchisee. It differs from most of the other business relationships. The relationship between the Franchisee and the Franchisor is never limited to the formal indicators mentioned in the contract. Credibility and reputation of both the parties is relevant for a happy and healthy relationship. There is an analogy to be drawn between parents – child relations on the one hand and franchisor - franchisee relations on the other. In the beginning of the franchise business, franchisee is like a child to the franchisor as he/she is dependent on franchisor's support. In the later stages franchisee gains experience and becomes less dependent on franchisor. The best results can be obtained from franchising where care is taken by both the parties in the following manner:

1.16.1 Requirement of the Franchisor for the growth and sustenance of the business

- i. Supplying complete and truthful information to the franchisee.
- ii. Providing new opportunities to the franchisee boosts his confidence and involvement.
- iii. Considering franchisee's ideas and suggestions in the cases that affect his interest or geographical area.
- iv. Continuous monitoring show a feeling of distrust in the mind of franchisor. This should be avoided.
- v. Many restrictions also spoil the relation between two parties.
- vi. Providing all essential and adequate training and support in gaining knowledge about business operations from time to time is essential for a healthy franchisor – franchisee relationship.
- vii. Support in the startup stage to the franchisee is required, especially during site selection, bargaining and setting a deal for buying a property, supplying equipment and inventory in time, advertising campaigns and promoting sites.
- viii. Providing rescue measures for trouble shooting during problems faced by the franchisee in his business.

1.16.2 Requirement of the Franchisee for the growth and sustenance of the business

- i. Comply with all the necessary instructions mentioned in the franchisor's operations manual.
- i. Protecting and safeguarding the intellectual property of the franchisor.
- ii. Providing the necessary information and performance reports to the franchisor as per the mutually agreed frequency intervals.

- iii. Franchisee should be honest as far as reporting the business results.
- iv. Franchisee should respect the franchisor's advice, guidance and instructions.

An American franchising consultant Nicholas A. Bibby (Bibby, 2011) brought out certain valuable observations and suggestions about franchising relationships as follows:

- i. Quality relationships (franchised or otherwise) are built on defined roles, consistent behavior, trust, honesty, openness and support; but most of all, natural fit.
- ii. A realistic take on most franchise relationships and mutual respect is required between the franchisers and the franchisees.

Apart from the above mentioned suggestions which are for an extraordinary performer who need extra attention, there are certain practices as mentioned in following paragraph which a franchisor can do to enhance and develop the franchisee/franchisor relationship.

i. Sharing the Vision: Franchisor should share the personal vision of opportunity and success which the franchise system offers. A franchisee being a family member of the franchise system, deserve to be a part of the vision, which will become a life-long project for them. This shared vision will become the focal point of the franchisee/franchisor relationship as they build to mutually develop in a harmonious and successful franchise experience.

ii. Effective Communication:

A regular line of communication from the franchisor acts as a guiding light for the franchisee. They often seek to develop new products or services which might enhance the growth and prosperity of the business. This communication line would facilitate a bilateral flow of information thereby. This communication could be in the form of mails, letters, newsletters, conference calls, video conferencing etc.

iii. Passionate marketing support:

A franchisee requires effective market presence of the brand both on a local and national basis. A balanced marketing and brand positioning strategy would help franchisee to reap the gains. Franchisor's balanced strategy to address its national and regional players equally is a fruitful relationship building exercise.

iv. Total Training Program:

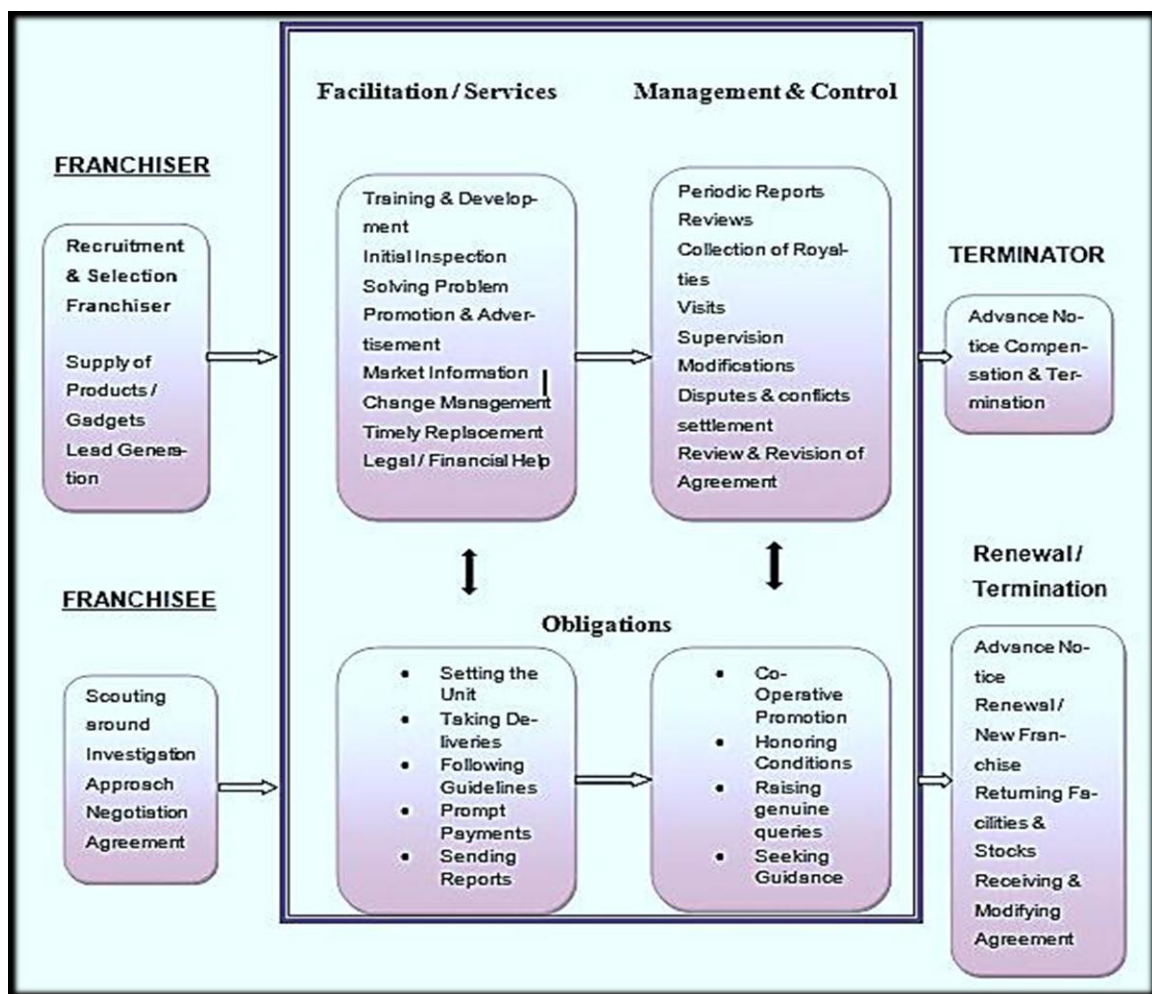
Training is the fundamental ingredient of a strong franchisee/franchisor relationship. Almost all franchisees require initial training to start the business. In addition, refresher courses, as well as new training programs should be provided to help improve the abilities of the franchisees and its staff.

v. Developing & sharing an aggressive growth plan:

Both the franchisee and the franchisor desire the company to grow, albeit some franchisees are ambitious and would like to become multi-unit franchisees after opening their first unit. They would like to open a second or third unit in the same city or state. Franchisor should be able to offer a plan for growth so that they can induce the enthusiasm of a vibrant and growing organization in the franchisee.

1.17 SCHEMATIC MODEL FOR FRANCHISE RELATIONSHIP

Figure 1.2: Schematic Model for Franchise Relationship



Source: Secondary Data

The schematic model as shown in Figure 1.2 given above can be divided into two parts horizontally. The upper part describes the role relating to the franchisor and the lower part to the franchisee. On the franchisor’s side, once the decision to take the franchise route to expand the business is made, the prospective franchisees are short-listed. This

stage may be taken as lead generation stage. After that, the franchisor conducts his part of investigation to see the desirability of entering into franchising contract with the franchisee. This stage is followed by negotiation which may eventually result in entering into an agreement. This is followed by fulfilling his part of the contractual obligation. This stage consists of two parts—facilitation/service and management and control of the franchise. The usual functions that are included in facilitation/service are supply of gondolas and other gadgets required by the franchisee to run his business, helping the franchisee in layout design of the retail outlet, if the franchise involves one, initial inspection, training the franchisee and his employees in handling business or rendering a service as the case may be. It is important to refresh the franchisee whenever any change in the product or service is initiated, timely replacement of the damaged goods and providing legal and financial help to the franchisee in times of need. The second part of the franchisor's role is management and control of the franchising system. Some of the important tasks of this are to obtain periodic reports and reviewing them constantly and giving necessary feedback. Collection of royalties or part of the profits and the costs of the goods and services from the franchisee of course is a major part of the management. Periodic and surprise visits to the franchisee's facilities is necessary to see the honesty and diligence with which the franchisee is fulfilling the terms and conditions of the franchise agreement. The modifications initiated by the franchisor and the franchisee have to be clearly defined. The franchisee and his employees have to be geared to meet the challenges posed by those modifications. As conflicts are an inevitable part of any franchising system, they have to be settled without any detriment or damage to the system. It may be at times necessary to review and revise the terms and conditions of the agreement.

The franchisee's side of the story is somewhat similar. An individual or a firm intending to enter into franchise are looking around for the best business possible. In doing so, a little bit of investigation is exercised by the franchisee before approaching the franchisor. Negotiations take place after approaching the franchisor. But in the Indian context, negotiations are rare. A 'ready-to-sign' agreement is kept ready by the franchisor and often the franchisee ends up signing on the dotted line. Thus a franchise Contract comes into existence. The franchisee's obligations to the franchising system start from this point onwards. The franchisee has to set the unit with or without the help of the franchisor as agreed upon in the contract. He takes deliveries from the franchisor as per the pre-specified schedules. He follows the guidelines given by the franchisor in taking

deliveries and running the franchised unit. Sending periodic reports, sharing market information with the franchisor, participating in the co-operative advertising are parts of the obligations of a franchisee. He may raise queries and seek clarification from the franchisee and settle the disputes orally by discussions or arbitration as stipulated in the contract. If the relationship is in good shape, the franchise contract may be renewed for a further period, or it may get terminated with mutual consent. The franchisee has to fulfill all the obligations at the time of termination of contract such as settling the accounts, returning the unsold stock, complete the service contracts entered into with the customers and so on.

1.18 ISSUES BETWEEN FRANCHISEE AND FRANCHISOR

Franchising is a joint venture where two different parties join together using same resources for their own beneficial purposes (Cravens, Shipp & Cravens, 1993). Everything is fine if both the parties do not become over-ambitious to make abnormal profits particularly at the expense of the other party. Often, the franchisor may have a complaint that the franchisee is not taking as much interest as he should to promote the brand, or does not invest as much as was expected originally, or the quality standards of the brand or the services are not being maintained. This may eventually result in the brand losing its sheen, more because of the doing or not doing of what was expected out of the franchisee than anything else. Even the franchisee may have his woes and complaints against the franchiser. As the franchise agreement is contractual in nature, the franchisee is not sure how long the contract would last and when the franchiser would call it off. If the franchisee puts his heart and soul in making the brand of the retail outlet famous in the area, and the franchisor terminates the contract, the franchisee may have nothing left at the end of the day.

A healthy franchise system should evolve through leanings from franchisees by their local experiences (Dada, Watson, & Kirby, 2011). Based on cooperation and loyalty between franchisor and franchisee, there should be good business faith and disclosure about any relevant information before signing contract (Lapiedra, Palau, & Reig, 2012). A poor franchising relationship can lead to failure of business (McDonnell, Beatson, & Huang, 2011). Sometimes there are misrepresentations in the franchising agreement and it leads to break in relationship and thus has deleterious effects on the franchise system of distribution (Hunt & Nevin, 1975). Many a times franchisors fear

to train franchisees because they think that they might be creating their own competitors (Peretiakko, Humeniuk, Humeniuk, D'Souza, & Gilmore, 2009).

Unhealthy relationship between the franchisor and franchisee gives rise to conflicting issues. These conflicts deteriorate the relationship and lead to the death of relationship. Conflict between franchisor and franchisee hinders the development of newer franchise relationships. Conflicts ruin the relationship between franchisor and franchisee and should be minimized to zero or the extent possible. The conflicts between franchisor and franchisee arise when the effective channel control is not established and there is deviation from the expectations of one of the parties (Sen, 1993). Conflicts happen because there is close association of franchisor's brand name and potential free riding by franchisees which is unacceptable by franchisor. There are problems like monitoring issues, information asymmetry and different incentives which lead to free riding by franchisee or franchisor and thus leading to conflicts in relationship (Kidwell *et al.*, 2007). The conflict may culminate due to various aspects including control mechanism, contracts and costs. Various research papers have outlined factors that increase or decrease conflicts. But undoubtedly, conflicts in relationships have shown to have detrimental effects on both parties (Brookes & Altinay, 2011).

1.19 OTHER ISSUES

The specific other issues which acts as the triggers for the arising disputes from the perspective of the franchisee includes the agreement and territory related issues, the excessive control exercised by the franchisor, and the issues pertaining to the stock. Referring to the territory issues, franchisees may be having the feeling that the franchisor is restricting their business growth by confining them in only one defined area, whereas franchisors keep expecting that their franchisees should try maximizing their market penetration in a given area. There has been a constant discussion on the control of business between franchisor and franchisee which has led to the development of different perspectives and theories. Managerial control in franchising is an important aspect of relationship. It becomes imperative to define a path of control mechanism so that it does not lead to a conflict. Lindquist and Jaque (1995) suggested that the franchise contracts could be used as a method of control and long term strategic choice. Lapiedra, Palau and Reig (2012) established that while signing an international franchise contract, the parties need to determine that how future disputes are to be resolved by arbitration or

tribunals to hear and pass the judgment in order to avoid any unforeseen situation in future.

For success in franchise business, it is important that the relation between franchisor and franchisee endures through thick and thin. Imperfect partner selection in franchise business may lead to disputes and increased management conflicts. Several studies support the fact that franchisee satisfaction is rationale behind the success of franchising venture. With higher level of franchise satisfaction, there is high boost of morale, greater cooperation, less termination of relationships, reduced litigations and fewer efforts to pursue protective legislation.

1.20 LEGAL ENVIRONMENT OF FRANCHISING

Legal environment of business refers to the system framed by Government to regulate the business according to certain defined priorities. It refers to the laws which are passed by the Government to control the country's business sector. Legal environment of the country dominates all the organizational decisions. The organizations are supposed to have knowledge of the legal policies framed by government for the business and follow the same. Non implementation of any norms under the legal framework leads to heavy fines/penalties or punishments to the concerned party. Some of the Acts, policies or Government regulations that relate to business in India are:

- i. The Sale of Goods Act, 1930 (Amended in 1994 and later in 2002).
- ii. The Indian Companies Act, 1956 (Amended in 2013).
- iii. Consumer Protection Act, 1986 (Amended in 2002).
- iv. Minimum Wages Act, 1948 (Amended in 2017).
- v. Agricultural Policy.
- vi. Industrial Policy.

Growth of any business, to a certain extent is based on the legal support that it gets in the country where it operates. Legal environment or the regulatory framework in a country binds the operations of concerned business and aligns it in right direction.

1.21 THE FRANCHISE LAW

In India the major hurdle in the growth of a vibrant franchising industry is the lack of any regulation and specifically the absence of a specific legislation to regulate franchising. This has kept the 'doors wide open' for fly by night operators both as a franchisor and as a

franchisee. The legal system as it is very poor and tardy in India. The existing laws do not act as deterrent for a dishonest franchisor who may take a large number of franchisees to a ride and then vanish. At present only a select few countries like United States, Australia and Malaysia have specific laws dealing with franchising. It is high time that appropriate steps are taken to regulate franchising in India. Any franchising arrangement involves among others, the contract law, the laws relating to intellectual property, law of agency, company laws, laws relating to competition and taxation, laws relating to property and insurance. Besides labor laws and laws relating to transfer of technology is to be Considered. In such conditions it is difficult for the lawmakers to harmonize all the branches of the law and translate it to form a single law on franchising that is to be applicable all over India.

1.22 NEED FOR REGULATIONS IN FRANCHISING

Franchising is a relationship between a franchisor and a franchisee which is bound by an agreement signed by both. The agreement is usually drafted by the franchisor and is expected to be followed and adhered to, by both the parties. Sometimes, it appears that the agreement is biased and favoring the franchisor. There exist numerous times and situations that may occur during the course of sale of franchise or thereafter that may require a due legal attention. This kind of situation raises a need for having regulations in Franchising. A franchise agreement is “a contract between two (legal) firms, the franchisor and the franchisee in which the franchisor is a parent company that has developed some products or services for sale; the franchisee is a firm that is set up to market these products or services in particular locations.

However, except in the USA, and now in The Republic of China, where there are explicit Federal laws (and in the US, State laws) pertaining to franchising, most of the world recognizes 'Franchising' as a business activity but rarely makes any necessary legal provisions for it. Only Australia, various provinces within Canada, France and Brazil have significant Disclosure laws but Brazil regulates franchises more closely.

1.23 REGULATION OF FRANCHISING IN INDIA

There is no specific law that governs franchising in India. Therefore franchise agreement and operations of franchise system of business are governed by different laws in

India. These multiple laws related to business and industry form the base for regulating the franchise business in India.

These are as given below:

- i. Law of Contract
- ii. Intellectual Property Right Laws
- iii. Consumer Protection Laws
- iv. Law of Competition and Unfair Trade Practices
- v. Law of Torts
- vi. International Business Laws
- vii. Law of Weights and Measures
- viii. Corporate and Securities Laws
- ix. Taxation Laws
- x. Insurance Laws
- xi. Labor Laws
- xii. Law related t transfer
of technology
- xiii. Industry Specific Laws

1.24 THE FRANCHISE AGREEMENT/ CONTRACT

When one buys a franchise he/she enter a legal relationship with the franchisor. At the very heart of a franchise relationship is a highly important and an extensive document called the franchise agreement/contract. It is a legal document that lists the rights and obligations of the franchisor and the franchisee in the franchise relationship. A franchise agreement/contract should achieve three fundamental objectives as follows:

- i. Given the absence of specific franchise legislation, it should contractually bind the franchisor and the franchisee and accurately reflect the terms agreed upon.
- ii. It should seek to protect the benefits both of the franchisor and the franchisee as well as the franchisor's intellectual property
- iii. It should clearly set out the rules to be observed by the parties.

Franchise contracts can be understood as attempts by each side to make sure the other side will live up to its promises. Contract clauses are used to post hostages. Because both franchisor and franchisee are tempted to renege, each side will post some hostages. The

franchisee is in a better position to renege, so it posts more hostages (accepts contracts that give great power to the franchisor).

1.25 ADVANTAGES OF FRANCHISING FOR FRANCHISEE & FRANCHISOR

Every system has its positive and negative sides. The pros and cons of franchise business can be studied from the franchisor as well as franchisee perspective.

1.25.1 Advantages to the Franchisee

1. Buying a franchise can be a quick way to set up your own business without starting from scratch. For an inexperienced individual, being an entrepreneur is always riskier. Risk of business failure is minimal in case of running a franchise and the risk is shared by the franchisor. One doesn't have to start a business from scratch. A skeleton business model is available, which you just need to fill up with your hard work and understand how the system works.

2. Your business is based on a proven idea. You can check how successful other franchises are before committing yourself. Franchise business can guarantee the revenue from the first day of the starting of unit as the brand is trusted by consumers.

3. Franchising enables small businessmen to compete effectively in the market and enjoy the advantage of economies of large scale. Developing a market position takes a long time but with franchising, it comes easily as you are marketing the already established brand-name of the franchisor.

4. The franchisor will help you at every step when you start a franchise business.

Franchisee has an access to effective initial training as assistance for development in future. Ongoing support, advice and skills imparted by the franchisor become a valuable resource for the franchisee. The franchisor will provide you an estimate of how much money you will need to buy a franchise from it.

5. All the necessary assets, equipment and inventory are made available to the franchisee by the franchisor in most of the type of franchising. Franchisee only has to buy them from franchisor.

6. One of the most important benefits to the franchises is access to already established brand name. You can use a recognized brand name and trademarks. You benefit from any advertising or promotion by the owner of the franchise - the "franchisor". This makes the franchisee to be part of that company that has already some recognition. Already

established and well recognized brand increases customer loyalty, which otherwise would have taken several years to develop in an independent business.

7. Most of the times the franchisor guarantees a predetermined territory to the franchisee And helps them to succeed within that region. The franchisor won't sell any other franchises in the same region, though there will be competition from other businesses thus helping to generate more revenue.

8. Franchising helps in acquiring the finance for business very easily. Banks are sometimes more likely to lend money to a franchisee with a good reputation. This is because every investor wants to invest in that business which has an established network, secure brand and effective support structure. Sometimes, franchisors also provide access to finance to the franchisee, making life even simpler for the new business.

9. A franchisee can take advantage of already established business relationships developed by the franchisor. For instance, relationships with distributors, suppliers, etc. Will already be in place and easily manageable.

10. The bulk purchasing power of a franchise system ensures that you get discounts from manufacturers.

1.25.2 Advantages to the Franchisor

1. Franchisor can get the rapid expansion of franchised business at the economic cost which is one of the benefits that the franchisor derives.

2. Franchising helps in increasing the network or chain of outlets which distribute one's brand.

3. Franchisee acts as a managerial talent to the franchisor.

4. Franchising helps to access the unknown market area with the help of franchisee's market knowledge.

5. Franchising is one of the safest methods of globalization.

6. Franchisee acts as a continuous capital contributor to the franchisor.

7. The risk of opening a new outlet in a new territory gets shared with the franchisee as well as success of franchisee is franchisor's success too.

8. Franchisor can minimize cost of administration, cost of distribution and even sometimes cost of manufacturing.

9. Franchisor can earn a ready royalty by granting a franchise.

10. Franchisor can have a control over the franchise through the franchise agreement and if he feels that his expectations are not met, can always discontinue the franchise.

Other Benefits-Brand Leverage:

A growing franchise network provides opportunities to cover greater market areas. For product manufacturers and service providers a large franchise network acts as a valuable distribution system in bringing their products to the market. They are able to own and control a vast dedicated distribution system without much investment and manpower.

1.26 DISADVANTAGES OF FRANCHISING FOR FRANCHISEE AND FRANCHISOR

Given below are certain disadvantages of Franchising for Franchisee and Franchisor

1.26.1 Disadvantages to the Franchisee

1. Although the franchisee may feel that he is an owner of a business, he is always being controlled by the franchisor. Franchisee can never become the owner of the brand that he is selling.
2. A high royalty fee may eat into your profit margin. When it comes to pay ongoing royalties and advertising fees along with the initial franchise fee it becomes a nightmare if the cash flows and the expenditures are not properly monitored.
3. Franchisee cannot make any independent decision as far as product design, quality, price, etc. Franchisee is not allowed to make any strategic changes.
4. Franchisee will face a cut throat competition, when the brand is newly established.
5. Any damage to the franchisor's reputation will inadvertently affect the franchisee's wellbeing. You may suffer loss, if another franchisee somehow gets entangled in bad publicity. Like the proverbial "rotten apple", it can damage the whole chain.
6. The franchise agreement usually includes restrictions on how you run the business. You might not be able to make changes to suit your local market. Franchisor having more power rested with him can terminate the contract with the franchisee whenever he is not satisfied. Similarly, he may not renew the contract if he does not want. Your franchisor may dictate you in almost everything, starting from when you open your store and what you can sell to what will be the design and color of your store.
7. Franchisee has to bear all the cost of startup and further has to pay franchise fee, royalty as well as, sometimes, a markup on the turnover. Costs may be higher than you expect. As well as the initial costs of buying the franchise, you pay continuing royalties and you may have to agree to buy products from the franchisor.

8. Franchisee does not have a right to sell his franchised unit to any third party without the prior consent of the franchisor. You may find it difficult to sell your franchise - you can only sell it to someone approved by the franchisor.
9. Franchisee is not allowed to sell the products or service of any other brand.
10. The franchisor might go out of business, or change the way they do things. In certain situations your franchisor may be out of sync with the local market and force you to adopt policies that are counter-productive.
11. Your franchisor may force you to buy products from suppliers at higher prices than the market-rate.
12. Joining hands with certain franchisors can be damaging, as they may have a restrictive non-compete clause, if you terminate or don't wish to renew your franchise agreement.
13. The public image of your business can be damaged if other franchisees are performing poorly or the franchisor encounters problems. Other franchisees could give the brand a bad reputation.
14. The parent company or franchisor you sign a franchise agreement with has the right to control a large portion of your operational decisions, including setting prices for goods or services, determining location decor and mandating employee uniform requirements. This may make you feel like less of a small- business owner because you don't truly have total control over your company. In the end, you have to adhere to the parent company's demands to preserve your franchise agreement.

1.26.2 Disadvantages to the Franchisor

1. There is a loss of ownership that takes place in franchising as the franchisor's Right on brand gets shared.
2. Association with a wrong franchisee can damage the reputation of franchisor's brand and trade name.
3. Franchised outlet is deemed to be less profitable as compared to the company owned outlet.
4. Another person will not dedicate the heart and soul in your business. This fundamental holds true to a certain extent in franchising.
5. Some deterioration may take place in quality of product/services when the franchisee produces the product or provides a service.
6. Continuous monitoring of cost and efforts need to be undertaken by the franchisor.

7. Franchised outlets may be slower to adapt to any changes recommended by franchisor as and when any strategic change is required, the franchisees need to be trained.
8. There is always lack of confidentiality in franchise business.

1.27 THE FRANCHISEE ATTRITION

While there has been a positive signs of regularized franchised activities globally, it has also been a fact that at times franchisee quit the business.

The 3 important Reasons for Franchisee Attrition are as mentioned below:

- i. Personal problems
- ii. Dissatisfaction in relationship
- iii. Falling profits

It is most commonly observed that the most obvious reason for franchises to quit is they do not get the expected financial returns or falling profits.

When they see that they are not getting the required marketing, operational, technical and other support they switch off. At times it is also observed that some franchises have to leave due to personal problems or their relationship with the franchisor has soured or there has been a change in regulations or ownership/possession of properties where the business operates or their ownership patterns itself changing, which impacts the business. At times franchises also leave when they have found something more lucrative or have got themselves a better franchise. It is also seen at times, that franchises become franchisors, when they believe that they can create a similar business and earn more from being a franchisor, hence planning an exit to re-enter the same business as a franchisor.

1.28 FRANCHISING - THE GLOBAL PERSPECTIVE

International Franchise Association (IFA) is the world's largest and oldest organization that represents franchising at the global level. As per IFA estimates, every year more than 800 companies are entering into the franchise system as franchisee units and around 100 franchisors seek the global expansion through this medium.

Entrepreneurs at the outset have realized that franchising is one of the fastest modes of expansion of business. As mentioned earlier, franchising originated in USA and today, the situation in USA is that, at every kilometer on the roadside one finds a franchise unit being operated.

The franchise system in the United States, considered home of franchising, has developed to maturity, and it plays a key role in the business activities that contribute significantly to that economy (Luangsuwimol & Kleiner, 2004). Nowadays, the international franchising market is growing and is considered to be very prospective all over the world. Franchisees have made 10-11% of the Gross Domestic Product (GDP) in 83 countries. Currently, there are about 21500 franchisors and 2.65 million franchisees in the world. It is interesting that the leaders of franchising business are the USA, Canada, Korea, Japan, Australia, Germany, France and Great Britain.

Over the last fifty years, Franchising as a business model has proved to be extremely successful across the world. The franchising business model is used across many industries, but it is most popular in the fast food restaurants, hotel, and casual & upscale restaurants industries. So much so that it is estimated that in developed economies like the US, over 40% of all retail sales come through franchised businesses and are a prominent business model in such industries as lodging, printing/copying, restaurants and tax preparation (Combs et al.,2004). Similar trends are being seen in Europe and increasingly in the Asia Pacific economies. In fact, the last few years have seen the fastest franchising growth taking place in the Asian and South American markets. Many leading international businesses have grown through franchising. It is estimated that franchises account for 14 percent of the world's total retail sales (Nastran Abizadeh, 2009).

Franchising, with its multiplier effect in terms of enterprise creation and job generation, has the power to produce the needed sustainable jobs that can provide a better future for hundreds of millions of individuals all over the world. With the evidence from more than 30,000 franchise systems generating at least 2,000,000 business enterprises worldwide, franchising has been a proven business strategy worldwide.

Perhaps the greatest indication of the value of franchising comes from the governments of countries like Malaysia, Singapore and China who have started to promote franchising positively as a way of encouraging locals to acquire business skills by learning from successful systems. Some of these governments have in fact started giving grants to new franchisors to help them promote their businesses.

1.28.1 The Economic Impact of the Franchised Businesses - Direct Contributions to the U.S. Economy, 2007.

It states that there were 828,138 franchised business establishments in the United States in 2007. Franchised businesses provided 9,125,700 jobs or 6.2 percent of the U.S. private nonfarm workforce in 2007. Franchised businesses supplied an annual payroll of \$304.4 billion or 4.2 percent of all private nonfarm payrolls in the United States in 2007. Franchised businesses produced goods and services worth \$802.2 billion, or 3.4 percent of private nonfarm output in the United States in 2007. Franchised businesses contributed \$468.5 billion to GDP or 3.9 percent of all private GDP in the United States in 2007.

1.28.2 THE ECONOMIC IMPACT OF FRANCHISED BUSINESSES ACTIVITIES GLOBALLY

As per a study by Anderson Consulting, franchising in India accounts for 4% of the nation's gross domestic product. In US, the global franchise economy accounts for 17 percent of the world's business. One out of every three dollars spent by Americans for goods and services is spent in a franchise business. In UK, franchise industry is currently worth £8.9 billion with 642 franchise units. Whereas Australians has franchise industry worth \$76.5 billion with 747 franchise system having over 49400 franchised outlets. The franchising is spreading worldwide. Even during recent economic slowdown franchising in New Zealand achieved an annual growth rate of 23-28% and in Asia franchise organization grew from 55 to 124 during 1992-99. As the service economy grows in India the opportunity for franchising are going to be multiplied. A look at the growing number of franchise in different sectors like Health Care, Food, Entertainment, Education etc., indicates the arrival of franchise economy in India.

1.28.3 Top Ten Franchise Brands in the World

Table No. 1.2 as given below provides a list of top ten franchised companies in the world.

Table 1.2: Top Ten Franchised Companies in Global Ranking - 2017

Franchise Company	Rank
7 – Eleven	1
McDonald's	2
Dairy Queen	3
Subway	4

Dunkin' Donuts	5
Kumon Math & Reading Centers	6
Krispy Kreme Doughnut Corp.	7
KFC	8
Pizza Hut	9
H & R Block	10

Source: Secondary Data

1.28.4 The World Franchise Council (WFC)

The World Franchise Council (WFC) is an association of 45 National Franchise Associations, whose purpose is to encourage international understanding and cooperation in the protection and promotion of franchising worldwide. Communication between representatives of world franchise organisations helps assist the members of each nation's franchise association and in turn the economies and wellbeing of the people involved in franchising at the local and national level.

1.28.5 The International Franchise Association (IFA)

IFA is the highest, largest and oldest organization representing the worldwide franchise system and activities. It works through its governmental relations and public policies, its media contacts and education programs to protect the interest of franchisors and franchisees. IFA enhances the work environment for franchise business through constant efforts and research. Its members are all the stakeholders of franchise business. IFA is a member of World Franchise Council. World Franchise Council is an entity that unites franchise associations from all over the world. IFA's role is to recognize franchise associations that are part of the council. Further, it introduces its members to the World Franchise Council.

Thus, in global perspective franchising is one of the fastest growing methodologies adopted in business. Franchise units are found on almost all streets and in towns and cities of the world. The situation is that franchising in today's world is applied to all types of business and in every industry.

1.29 FRANCHISING - AN INDIAN PERSPECTIVE

Historically, the 1980s were the formative years of the modern franchise boom; and in the 1990s the industry was in adolescence maturing rapidly, but with plenty of room to grow. It took a clear understanding of the relationship between the franchisee and the franchisor to achieve success by business format franchises during the past decade worldwide. A

strong, and management backing with solid financial resources is the common reason for this stupendous growth and advancement in the franchise format by all major companies of repute in India and overseas.

The international soft drink and hotel franchisees arrived in India, as early as in the 1960s, but in 1977 the then government expelled foreign brands from India but they started returning gradually from the mid '80s. In the '90s when the liberalization started and as the markets opened, foreign franchisees started coming in but faced many hiccups along the way especially global companies like KFC, Schweppes, etc. Since then, there has been progressive entry of international franchisee and many have been successful with few exceptions.

The well-known companies relating to soft-drinks, ice-cream parlors and restaurants include Pepsi, Coke, Baskin Robbins, Subway, McDonald's, Pizza Hut, Domino's Pizza have a stabilized franchise model. Retail franchises such as Mark & Spencer, Westside, Peter England, Pepe Jeans and Pantaloons are also doing well. The Indian companies who ventured into franchising business very early were courier companies like First Flight, Blue Dart and DTCC along with computer and software training franchises such as APTEC and NIIT etc. What one would notice is that all these companies have expanded gradually and made their presence by franchising.

As per a new research report titled "Indian Fast Food Market Analysis", currently the Indian fast food industry stands at a massive size of ` 47 billion, driven by a growing number of working professionals. Apart from this, busy life schedule, standardized food, and less time-consuming processes are also fuelling the demand from domestic consumers in the industry. As demand for all types of fast food items are consistently on the rise, pizza, burger, and French fries have become the all-time favorite among young Indians, more so with some of the well-known burger and pizza restaurants like McDonald's, Domino's, KFC, Pizza Hut, Nirula's etc., operating in India. Similarly, McDonald's is targeting 1,000 restaurants by 2020. Hard castle Restaurants, which runs McDonald's in the south and west, plans to open up to 70 stores next year. It will be the franchisee's biggest expansion in the past 15 years. McDonald's also plans to invest 10 billion to boost growth. As a result, many international fast food giants are opening up their franchise outlets in India to grab the huge untapped potential in a fast emerging market.

One of the major interesting facts is also to be understood that and earlier franchising business was introduced to only top 4 metros and state capitals but now every District Capital and Town is doing business under the franchisee model.

In India, the franchising model of business has gained exposure very rapidly because of its ability to provide instant growth to businesses, at all levels. Indian economy since liberalization has witnessed steady revolution. As per the macro statistics, agriculture is no longer considered as the chief contributor to the Indian economy. For the last two decades the country is focusing more on manufacturing and service based economy. This growth has given momentum to a huge entrepreneurial appetite. Over the last decade, in India franchising is considered as one of the most fertile and realistic way of business diversification. Most of the industries leveraging their growth have adopted franchising strategy and are franchising their products under various formats. These include food and beverage, education, fashion, tourism and hospitality etc. According to Franchise Association of India, the franchising business in India is growing at an average of 20 - 25 percent for the last ten years. Several international brands have entered India in the last few years and have been able to create jobs and wealth at local level. According to the report by Grant Thornton, globally, India is the largest franchise market in the world after the United States, with about 4,600 operating franchisors and 0.15-0.17 million franchisees in 2017. More than 850,000 jobs are attributed directly to franchising and more than 150,000 franchisees are operational in India (International Franchising Association, 2014). According to Franchise India, franchising has witnessed a growth of around 30-35% over the last four-five years. Currently, franchising business contributes nearly 1.8% to the Indian GDP and is estimated to contribute to around 4% by 2022. The franchising business in India was worth INR 938 billion in 2012. In 2017, it reached INR 3,570 billion, growing at a compound annual growth rate (CAGR) of 31%. The market is projected to reach INR 10,500 billion by 2022, growing at a CAGR of 24%. Around 6 -7 per cent Indian franchise systems have entered international markets. It is usually food & beverages and retail sector which is accumulating its market by means of franchising followed by healthcare & beauty and education sector.

KPMG mentions that franchising is expected to continue to be one of the most popular business formats among organized retailers, especially to reach the Tier-II and Tier-III cities. The franchising industry has quadrupled between 2012 and 2017 as per the estimates made by KPMG in India. There are certain industries that possess the

greater chances for successful franchise opportunities in India like 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.

1.29.1 CURRENT MARKET SCENARIO FOR FRANCHISING BUSINESS IN INDIA

Since liberalization, the Indian economy has witnessed steady evolution consumerism has risen on account of growing young population, high disposable income & growing urbanization. Consequently, retail and service sectors are expected to play a major role in consumption boom. The macro statistics reveal that agriculture is no longer the chief contributor to the Indian economy. The country is gradually moving towards being a manufacturing service-based economy in last two decades. This growth has also given impetus to a huge entrepreneurial appetite. The following Table 1.3 shows sector wise structural shift in Indian Economy.

Table 1.3: Sector wise Structural Shift in Indian Economy

<u>Sector</u>	<u>Year 1991-92</u>	<u>Year 2011-12</u>	<u>Year 2017-18</u>
Agriculture & Allied	29.5%	16.5%	15.5%
Industry	25.5%	29.5%	23.0%
Services	45.0%	54.0%	61.5%

Source: Secondary data

Over the last decade franchising has surfaced as one of the most prolific and feasible ways of expanding business in India. Several industry verticals such as Food & Beverages, education, Fashion, Tourism, & Hospitality are leveraging their growth by franchising their products under various formats. Today India is a home to more than 3000 brands which adopt the franchising model. Bata, one of the leading footwear companies was among the first franchisors in India. Other pioneers of Indian franchising were NIIT, Apollo Hospitals and Titan Watches. In addition, today the several leading global franchise companies, such as Dominos, McDonald's, Yum Brands, Baskin. Robbins and Subway, have already established a presence in India. This has surfaced as one of the most franchise industries is expected to continue to benefit greatly from government support across various sectors

through various measures including allowing foreign direct investments (FDI) in single brand leveraging their growth by and multi-brand retail.

1.29.2 THE ECONOMIC SIGNIFICANCE OF FRANCHISING MARKET IN INDIA

Franchising contributes to the economic growth of a nation in multiple ways such as job creation, access to necessary goods & services and expansion of country's tax base. The concept of franchising in India has been growing at an impressive rate since 2008, as risk-averse Indian entrepreneurs consider it as the most viable option to tap nation's vast consumer market. KPMG in India estimates suggest that the Franchising business in India worth USD 13.4 billion in 2012 and is expected to witness CAGR of 30 percent over the next 5 years. This amounts to about 1.4 percent of the country's GDP in 2012.

1.29.3 GROWTH DRIVERS FOR FRANCHISING IN INDIA

India, with its large population has always been a consumption story and will continue to remain so for the years to come. Burgeoning consumer class with an increasing appetite for consumption is considered as the biggest growth driver, both by franchisors and franchisees. Increase in entrepreneurial drive coupled with risk taking abilities has steered a number of people, especially those with no-specific business background, take a plunge into franchising based business models. Franchising as a business model has time, giving new entrepreneurs increased confidence on the success of their ventures. Besides these, availability of investments and increased investment capability has also been a key factor driving the growth of the industry, especially when investment support from franchisors is minimal. Businessmen predominantly choose franchising route as it helps increase the scale of operations while reducing the time to market. This also aids in brand building process through value creation. Franchising imparts uniformity of product / service offering thereby leading to increased standards and quality. It is often the uniqueness of the concept and value of the brand of the franchisor business that attracts franchisees to invest in them. While promises on investment returns made by franchisors are another key parameter that attracts the franchisee, their ability to understand and operate the business dominates the decision making process. Franchisors also believe that providing a well-defined operating structure enables franchisees to learn quickly and implement the same.

The various growth drivers from the point of view franchisor as well as franchisee are shown in the Table 1.4 given below.

Table 1.4: Growth Drivers- Franchisor and Franchisee View

Sr.No.	Growth Drivers – Franchisor View	Growth Drivers – Franchisee View
1	High Disposable Income	Exposure To Global Media, Fashion Trend
2	High ROI	Growing Preference for Branded & Quality Products Amongst Consumers
3	Availability of Robust Concepts	Availability of Robust Concepts
4	Investment Availability	Investment Availability
5	Entrepreneurial Spirit	Entrepreneurial Spirit
6	Huge Consumer Class	Huge Consumer Class

Source: Secondary Data

Franchising is gradually entering the business world of India. Due to a large population and considerably well consolidated middle class groups, India provides vast scope to franchise system of business to spread its tentacles. Consumers in India are becoming more brand conscious and spare a considerable amount of their earnings for franchised brands.

Franchising entered India through education industry followed by the fast food sector. However, soon it was spread to several retail operations including health care. Today, doctors, couriers, chemists, clinical labs, saloons, florists, pre-schools, high schools, higher education, interior decorators, gyms, and spas also have successfully adopted franchise mode of business expansion and entrepreneurship in India just as in other countries.

Table 1.5 as shown below gives a list of Indian industries where franchising has proved to be a successful mode of doing business. It also gives few examples of brands that sealed great heights through franchising in India.

Table 1.5: Industries and Popular Franchise Brands in India

Sr.No.	INDUSTRY	BRANDS
01	Computer / IT Education	NIIT, Aptec
02	Primary Education	Shamrock
03	Restaurant and Fast Food	Dominos , Naturals, Pizza Corner
04	Bakery Foods	Frontier Bakery, Monginis
05	Greeting Cards	Hallmark, Archie's
06	Retail Watches	Titan, Timex
07	Retail Shoes	Bata, Liberty, Adidas

Source: Secondary Data

1.29.4 Top Fifteen Franchised Brands in India

Franchise Asia, which is a part of Franchise Direct; the world's leading franchise portal, has announced topmost franchise brands operating in India, as late as in 2017. Franchise Asia's goal is to provide an efficient and reliable platform for aspiring entrepreneurs to connect with the franchisors seeking investors. Table 1.6 as given below provides a list and details of Top Fifteen franchise brands operating in India as per the 2017 Report of Franchise Asia.

Table 1.6: Top Fifteen Franchise Brands Operating in India

Sr.No.	Franchise Brand	Origin	Years In India	Franchise Sector
01	Subway	USA	20	Food and Beverages
02	Bata	India	119	Retail and Lifestyle
	McDonald's	USA	26	Food and Beverages
04	DTDC Couriers	India	30	Support Services
05	Dr.Batra's Clinics	India	12	Beauty and Healthcare
06	Baskin Robbins	USA	26	Food and Beverages
07	Kidzee	India	16	Education (Pre – School)
08	Domino's Pizza	USA	23	Food and Beverages
09	Patanjali	India	14	Beauty and Healthcare
10	Eurokids	India	19	Education (Pre – School)
11	Lenskart.com	India	11	Beauty and Healthcare
12	Airtel	India	20	Support Services
13	Archies Gallery	India	41	Retail and Lifestyle
14	Dr.Lal's PathLabs	India	70	Beauty and Healthcare
15	Amul Ice cream	India	24	Food and Beverages

Source: Secondary Data

1.29.5 Franchise Association of India (FAI)

Franchise Association of India (FAI) is an association for franchise sector, representing franchisors, franchisees and service providers to this sector.

FAI was started in the year 2001 as a non-profit organization.

The objectives of FAI are:

- i. To develop a strong franchise sector.
- ii. To protect the interests of members of the association.

- iii. To create awareness among consumers, Government and the business community about significance of franchising.
- iv. To design practical and efficient services to its members so that they can effectively operate in the system.
- v. To organize franchise events so that members can get an opportunity to promote their talents as well as brands.
- vi. To provide information to members on the latest developments in the area of franchising.

FAI works effectively to ensure that all the activities that it undertakes benefit the members and their business at large. Membership of FAI is voluntary. Any interested organization or individual connected with franchising or otherwise can get the membership of FAI. Thus it includes franchisors, franchisees, their employees, lawyers, Accountants, banks, consultants, academic institutions, and publishers as its members. FAI is the member of World Franchise Council and is associated with other franchising associations across the world.

1.29.6 Government, Financial and FAI's Role in the growth of franchising in India

It is of prime importance to know what role the government should play in promoting the success of franchising business model in India. Equally important is the role being played financial institutions in India in providing an impetus to the franchising model in India. The role & responsibilities of the organizations like Franchise Association of India (FAI) has a significant role in developing franchising business in India. Here again researcher strongly believes that the government should grant franchising a specific segment status like it has done for say industries or agriculture. Today there is no pure franchise related funding assistance provided despite the fact that banks and bodies like SBI, SIDBI etc. say that they provide loan for franchising, but in effect it is all done on the basis of the person applying for the loan rather than the merit of the business itself or a combination of both. Being not very regulated has its own advantages as it provides an ecosystem for smaller companies with lesser resources to grow and cuts off the red tapism and other government interventions. However, the flip side is, there could be unscrupulous players taking advantage of this situation.

In India the major hurdle in the growth of a vibrant franchising industry is the lack of any regulation and specifically the absence of a specific legislation to regulate franchising. The legal system as it is very poor and tardy in India. The existing laws do not act as deterrent for a dishonest franchisor who may take a large number of franchisees to a ride and then vanish. At present only a select few countries like United States, Australia and Malaysia have specific laws dealing with franchising. It is high time that appropriate steps are taken to regulate franchising in India. Any franchising arrangement involves among others, the contract law, the laws relating to intellectual property, law of agency, company laws, laws relating to competition and taxation, laws relating to property and insurance. Besides labor laws and laws relating to transfer of technology are to be considered. In such conditions it is difficult for the lawmakers to harmonize all the branches of the law and translate it to form a single law on franchising that is to be applicable all over India.

1.30 FRANCHISING - PUNE AND SURROUNDING AREAS

Pune is the second largest city in the Indian state of Maharashtra and the eighth most populous city in India, with an estimated population of 7.2 million as of 2020. Pune is known for its authentic food and cultural heritage. Pune has grown to be a powerful business hub in India. The city is one of the fast developing metropolitan cities in India. Along with the municipal corporation limits of PCMC and the three cantonment towns of Camp, Khadki and Dehu Road, Pune is widely regarded as the third major "IT hub of India" and the top "automobile and manufacturing hub of India". It is known as the Oxford of the East with the presence of a wide range of educational institutions. Pune is also developing many incubation centers and more than 375 local startups leading to a platform for young entrepreneurs to learn entrepreneurial skills and means. Pune city is rapidly growing in to an industrial center. Fast food restaurants are at the top in the list followed by retail & lifestyle in the list of business ideas in Pune with small investment. Although the economy of Pune has been supported mainly by industries such as, Automobile, IT, and Engineering sector, a considerable contribution to the development of Pune has been done by every business enterprise and entrepreneur operating therein. More over franchising also has contributed its share. Franchising has made its way in the economy of Pune and is helping thousands of individuals in Pune to own the proven business ventures successfully.

As Pune is the economic hub of a large number of successful companies and has been developing at a fast pace in every other field with a continuously changing environment, many established franchisors of Indian as well as global brands have been looking out for prospective business partners to start their franchises in Pune city and adjoining areas. Initially, when Pune was new to franchising, it was NIIT, the renowned brand in education sector which imparted computer training, made its pioneering entry in Pune as a first franchised outlet. This entry was followed by another well-known brand named Titan, which sold watches. Thereafter, one by one the brands started flooding the markets of Pune. The approximate year, in which franchising got introduced in Pune was 1980. Today, Pune has competitively acquired success in franchising in most of the industries.

Table 1.7 as given below provides a list of some of the successful brands operating in Pune across different industries. This list may not be a comprehensive, as it has been obtained through primary survey. The limitation with franchise system in Pune region is that it does not have any concrete regulatory authority that maintains a comprehensive database of all franchised units operating in Pune region although Franchise India having its branch office in the city maintains most of the relevant update to certain extent.

Table 1.7: List of Franchisees Operating in Pune through Franchising

Sr.No.	Name Of The Brand	Industry
01	Jetking, NIIT , APTEC, Disha Computer Academy, FACT Education,	Computer Education
02	Baskin & Robbins, Amul, Quality Walls, Havmor	Food and
03	Monginis, WS Bakers, Kekiz Cakes, 7 th Heaven, Baker's Basket	Food and Beverage
04	Domino's, Pizza Hut, Cheesiano Pizza, Rollsmannia, Burgerking, Joshi wadewale,	Food and Beverage
05	Kidzee , Eurokids, Lexicon kids, Bachpan, Timekids.	Pre –school
06	DTDC, First Flight Courier, Blue Dart, Trackon, Kings International couriers, Maruti courier	Couriers
07	Cox & Kings, Kesari tours, SOTC, Akbar Tours& Travels, makemytrip.com	Tours and Travel
08	Himalaya, Patanjali, Apollo Pharmacy, Wellness Forever	Health Care

09	Dr. Batra's clinics, Lal Path Labs, Orthodontist, Healthspring	Health Care
12	C'Lai, Raymond, Cotton King, Arrow, Pepe Jeans, Manyavar, W for women, Aurelia, firstcry.com, Gini &	Clothing & Fashion wear
13	Natural's, Amul , Kwaliti, Walls, Kaware Ice-creams, Havmor,	Food and Beverage
14	Coca Cola, Sujata Mastani, Falahaar, Yewale Tea, Saiba Amrittulya	Food and Beverage
16	Bata, Addidas, Nike, Asics, Crocks	Consumer
17	Lakme saloon, Jawed Habib, Tony & Guy saloon, Enrich Salon, Apple Saloon	Saloons
18	Motilal Oswal, Sharekhan, Anand Rathi, Angel Broking, Kotak Securities,	Investments
19	Chate Classes, Aakash Institute, TIME coaching, Kohinoor Technical Institute, Speakwell English Academy	Education
20	Tanishq, Orra , Gitanjali, Malabar, Kalyan Jewelers	Jewelry
21	U Clean, Deluxe Laundry, Moustache Laundry	Laundry
22	Fabindia, Ferns 'N' Petal, Kurl On Matrices, Volta's AC, Archies Gallery	Retail & Lifestyle

Source: Primary Data

As far as franchising in Pune is concerned, the city has adopted almost all types of franchise systems. Pune has Master Franchising, Single Unit Franchising, Multiple Unit Franchising, Manufacturing Franchise, Service Franchise and many more.

Franchising in Pune is practiced by several industries. They include Education, Food and Beverage, Consumer Goods and Service, Hospitality, Health and Beauty, Automobiles, Tourism, Couriers and even Sports.

Pune practices franchising through international, national as well as the local brands. There are more than 350 companies presently operating in Pune through franchise mode of business. Thus, Pune is presently at a take off stage for the next stage of development through franchising.

1.31 CHAPTER SUMMARY

This chapter intended to provide a conceptual understanding of franchising. Considering the slow and steady spread of franchise mode of business all over the world and in India, the study highlighted the various dimensions of this business activity from

its evolutionary period to the present stage. Further, the chapter has extended its scope to clarify the conceptual details of franchising and also differentiated it from the business concept such as distributorship and agency. The unit also covers the merits and demerits associated with franchise mode of business and its functioning. In order to reveal the realities in the field of franchising the research also has explored the various brands operating at the global, national and state level. Towards the end of chapter various facts with regards to franchising as one of the modes of business in Pune region has been studied.

Franchising has been widely accepted and adopted by both developed and developing countries, where most of the business markets have been trapped by franchising type business models. In the developed countries like US more than 765,000 franchisees are presently operating, while as in UK current worth of franchising is £12.6 billion consisting of 825 active franchise systems having 34,450 franchised outlets. At the national level also, it is increasing at an alarming rate. In India thousands of international brands are operating here and Indian brands are operating in International markets and the franchising industry in India will contribute almost 4% of Indian GDP by the year 2018.

CHAPTER - 2

REVIEW OF LITERATURE

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2.1 INTRODUCTION: REVIEW OF LITERATURE

Review of literature gives the guidelines from past researchers and provides foundation for the theoretical frame work for the present research. It is the secondary source of data and is based on the survey of research articles, journals, research papers, relevant books and published reports. In the research process, there is a necessity to conduct a review of literature since it helps the researcher in understanding the research gaps those are existing and avoiding the possible duplication of research work, It exhibits the researcher's knowledge depth and thus goes on for building a basic foundation and supporting framework for the current research activity that has been currently undertaken. The review of past literature makes the researcher to get an insight into the methods and procedures to be followed. Literature written regarding any concept or topic reflects the need to understand what happened in the past as well as what can be done in the present as well as in the future. To identify what is important for the research to be done, review of existing literature is done. It gives an essence of any challenges or pitfalls faced in the past and provides an opportunity to find new directions. This will enable the researcher to gather sources and subject them to second reasoning and meaningful interpretation. It serves as an important guideline for the researcher while carrying out the current research that has been undertaken. The different issues that have emerged from the review have been discussed for the formulation of research gaps and objectives of the study.

2.2 AN OVERVIEW OF REVIEWED LITERATURE

The papers included in the review are studies conducted overseas and in India with franchising as the prime focus. The search of research papers was further refined by limiting to growth & international franchising, success and failures, conflicting issues, legal issues and various challenging issues in franchising. The study includes various doctoral studies, published and unpublished articles in national and international journals. It also contains proceeding in seminars, conferences and information specified in various websites, surveys and books on franchising.

A total of 104 research papers , articles , thesis and books were studied for reviewing literature related to various specified aspects in franchising as mentioned in above paragraph. A research paper as old as that was written in 1968 to as new as that was written in 2016 were included in the study. Most of the papers are based on studies in developed countries while much less number of papers were explored in Indian conditions. It is observed that a few research papers are from developing countries which again highlights the need that the research study in franchising should be done also in the context of developing countries.

Journals of international repute were included for studying literature and few of them are: Journal of Business Research, Journal of marketing research, European Journal of Marketing , Asia Pacific Journal of Marketing and Logistics, Journal of Retailing, Industrial Marketing Management, International Journal of Retail & Distribution Management, Managing Service Quality: An International Journal, Journal of Business Venturing, Journal of Small Business Management and others.

The following chapter gives an insight about the past literature with reference to growth of franchising and various issues as well as challenges in franchising business. The most relevant literature is presented under the following headings keeping in view, the objectives and hypotheses of the study.

2.3 LITERATURE REVIEW

Franchising has become the most successful and faster growing method of business across the world. Evidence suggests that there has been a wide scope in franchising business. From the point of view of this massive scope in franchising, the researcher has undertaken the present research study to explore in details the following selected six broad areas of the franchising business.

1. Growth of franchising.
2. International Franchising business.
3. Legal environment of franchising.
4. Conflicting Issues Franchisor-Franchisee Relationship
5. Challenging Issues in franchising business

6. Success and Failures in franchising business

In order to find out the depth and feasibility of the current research study, the following literature survey has been carried out. The literature that is surveyed has been further classified as per the six broad areas which are identified as mentioned above. These research areas form the core content of the present research work undertaken.

2.3.1 LITERATURE REVIEW RELATED TO GROWTH OF FRANCHISING BUSINESS

Dada (2009), has done a study with reference to Entrepreneurship levels from the perspective of Franchising in the UK. As per him the most entrepreneurship development programs have been shown to be focusing more on independent start-ups and small and medium sized enterprises (SMEs). Yet, the franchising as a business method remains fairly under-explored. He further mentions that the entrepreneurship supported the different SOPs and Add-ons from the government but still franchising business remains to be slow developing at slower pace. According to him, the essential features of the franchise business concept has been reviewed to understand the franchising as a whole as well as franchising model of business. Further, the present trends in the franchising business industry in the United Kingdom are also discussed as well as the economic contributions of franchising business are highlighted. As per him the franchise system is already been established and has further gone through the early stage of its development and growth. It has been seen that the alternative sources of raising the capital to run the franchised business has become possible to the franchisors. Also, the expertise and skills required in the financial management, site selection as well as managerial capabilities has been developed by the franchisor.

Oxenfeldt and Kelly (1968), proposed a life cycle model of franchising, in which a young company with a limited supply of capital becomes a franchiser in order to use the franchisee's capital to expand. Then as it acquires sufficient capital, the franchisor will later take over the larger units from franchisees.

Lafontaine (2001), mentioned that established franchisors manage their company outlets and franchised outlets in a better way to meet their target. He found that on an average these franchisors keep a judicious combination of 15% owned outlets and 85% franchised outlets. Additionally, it has been mentioned that the brand name is one of the most

important determinants which indicates whether the franchisor will opt for company outlet or franchised outlets. It has been seen that in this context that higher the brand name/value as measured by its advertising fees or major media expenses, more is the tendency to have owned company outlets to avoid any free riding by the franchisees that can cause damage to the brand name.

Dhamayanthi and Kumar (2009), studied the importance of allowing FDI in Retailing business. FDI and its role was an issue of debate for fairly large time and their implications are still remaining to be generally unclear. The authors in their research paper have quoted a very good example of China which was able to achieve a grand achievement by allowing 100% FDI in the sector. The research paper has highlighted the factors for not allowing the FDI in retail sector. It also discusses about the India's current position in the sector and its implication if the sector was opened for FDI. The research paper further goes on concluding strongly that FDI should be allowed in the Retail industry.

Shane (1996), in his study found that franchising, as compared to other hybrid organizational forms, has a positive impact on the network growth and survival since it overcomes the managerial limits to firm's growth. Several factors like franchisees start-up costs, franchisor's growth orientation, multi-partner franchise system start-ups, prior franchising experience of the franchisor, close adherence to the original franchise practice, lowering of royalty rates as the system ages, low upfront franchise fees rising over time and low initial investment, financing of franchisees showed a positive impact on franchise system growth. While as industry growth, franchisor age and adaptation by the subsidiary produce a negative effect for network growth. Passive ownership by the franchisee, franchisee's cash investment, franchisee's experience, geographic concentration of the system, legitimacy of the franchise system, efficiency of the franchise system, contracting efficiency and adoption of exclusive territories by new franchised chains have positive impacts on the survival of new franchised chains. Whereas, the complexity of the franchise system and the master franchising arrangements have negative impacts.

Castrogiovanni and Justis (2002), found the various factors associated with network growth of franchisors and further shown that the growth of a franchised firm has been found to be positively related to both the strategy as well as the context, though strategic influences may be greater than the contextual ones. Growth orientation and the start-up costs are seen to be having positive impacts, while the industry growth and the age were

found to be having negative impacts on the network growth. Hence, it has been found that as long as a firm emphasizes on franchising as its expansion strategy, it surely has a significant positive impact on its survival and growth.

Williams (1998), while studying the best available strategies for growth and the challenges faced by the young entrepreneurs concluded that the industry risk, financial capital available at start-up, education level, salaried work experience are the main factors that have got positive impact on franchisee's decision to franchise.

Ehrmann (2003), found the reasons for the franchisor's intention to combine franchisees and company owned units while they structure their distribution network. The study analyses and explains the way in which the franchised units outperform the company owned stores in case one considers factors such as cost reduction, quality enhancement, stimulation of growth rate and control optimization with respect to risk. The study is analytical. A sample of 925 franchised units is chosen and the data has been analyzed using one way ANOVA, correlation and regression. The research further concludes that franchising has an ability to benefit both the franchisor as well as the franchisee. It helps them in not just at the introductory stages but also at the the growth and maturity stages. However, the plural form of business expansion is more beneficial option for achieving the long term success for the franchisors.

Vedat (2012), studied the working of the franchise business sector and further found the factors which are contributing significantly to the increased franchise contracts. His research is based on the secondary information collected from the Turkish Franchise Association (TFA). Quantitative data such as initial franchise fees, number of employees in the parent firm, number of employees within the franchise network, age of franchise, age of parent firm etc. are obtained from the available database and was used in the research study. The data collected was categorized into three broad sectors such as the food industry, stores and the service sector etc. The aforementioned factors are found to be significantly impacting the growth of the franchise business with an exception to the initial investment which has been found to be insignificant in the food industry growth.

Dant et al. (1996), in a study concluded that franchisors require information on local market conditions such as desirable locations for the business, the potential demand, the sources of labor supply and the local culture i.e. increase in informational capital for expanding their business in new and unfamiliar markets as well as rapid growth.

Windsperger (2006), mentions that a successfully performing franchisee gets converted into a company owned unit eventually. Thus, if a franchisee is performing successfully and have a significant market presence/performance, then the franchisor prefers to go for buying back that successfully performing franchisee in order to earn the increased sales revenue instead of having remained satisfied with only the stipulated royalty and the franchisee fees that has been levied.

Sheshadri (2002), studied the concepts like internal agency trade off and external agency tradeoff in franchising business. The internal tradeoffs means that the company owned units employ the managers for controlling the business activities and these managers in a way acts as the internal agents. Whereas, the external agency tradeoff refers to the agency through the franchising. The internal and external tradeoffs system impacts the overall growth and survival of the franchise system as well as the share of the company outlets. The research study has used the structural equation model (SEM) technique in LISREL 8.30 having a sample size of 150 franchisors. According to the research study it has been seen that the growth rate of the company as well as the share of the profits that a company earns are influenced positively by the internal agency tradeoff. It has a positive influence on the growth of the company in the case of external agency tradeoff but not on the share in the profit that is earned.

Bates (1998), investigated the survival patterns of franchise and non-franchise smaller sized firms and further concluded that the purchase of a franchise by a new entrepreneur is unlikely to reduce the risks facing a new business start-up. One of the principle reasons for this observation is that new entrepreneurs have to face stringent competition with many newly-opened units which are owned by multi-unit franchisees having higher experience and greater resources.

Lafontaine and Shaw (1998), examined the issues of growth, entry and exit into franchising by franchisors in business format franchising and concluded that the number of business-format franchisors is highly correlated with the number of units in these chains and that business-format franchising growth is at best matching with the growth rate of the economy as a whole.

Alon and Toncar (1999), comments that Franchising has been advocated as a method of growth for developing countries, providing know-how, and advanced marketing and management practices that are of high importance in the post-communist countries.

Because business format franchising focuses on the transfer of retail know-how rather than on product distribution, it is the form of international franchising most likely to have a direct effect on the economic development of developing countries (Kaufmann and Leibenstein, 1988).

R.K. Suman (2008), said that, there are several companies that are looking at the franchise route to grow aggressively in the Indian market. These include brands across the spectrum – Subway, Qwiky's, Sagar Ratna, Movenpick, and Amul. The Great Indian Kabab Factory, Superstars Bar, Cookie Man, Bikano, Rameshwars, Marrybrown and Wimpy besides several others. Also to be mentioned here is the expansion model of brands like Nirulas, which offer a management contract. Additionally, there is substantial interest from overseas F&B franchisors to enter the Indian market through the Master Franchise route. Brands that are already utilizing the Master Franchise route in India include McDonald's, Domino's Pizza, Pizza Hut etc. However, many of these master franchisees are not awarding unit franchises at the moment and are concentrating on growth through company-operated outlets only. Despite being a country of over a billion people, we are yet to have our first nationwide food chain. However, the silver lining is that there are still a lot of unfulfilled need gaps in the Indian F&B sector as the success of coffee pubs has amply demonstrated. The Indian consumer is willing to experiment and spend money. What is needed is a business model that takes into account the nuances of the Indian market and addresses the problems mentioned above.

Indian Franchise Association Report (2007), provides an important piece of information on current trends in franchising in India. An extensive survey of 1500 franchisees across the country has been done by IFA with an initiative of students of IIM Bangalore to identify the opportunities and challenges of an entrepreneur owning a franchise. The report speaks about various aspects of franchise business such as franchise life cycle where it identifies five factors, franchisor - franchisee relationship, franchisee motivation, franchisor support, brand success and growth. This study was carried out with the help of online survey of different sectors and interview of 70 franchise units to analyse the philosophy of Indian franchise system. Statistical tools such as factor analyses and regression analyses were used.

The Franchising Association of India (FAI) was set up in the year 2001 as a membership association of franchisors, franchisees and other related interests. This is a recognized association and by virtue of being a member of the World Franchising Council is closely linked with other WFC-member associations in countries around the world including the International Franchise Association. According to, (Dhawal Shah, Ashish Jain, 2006) the basic objective of FAI is to promote the concept of franchising and the related best practices.

Singh (2012), in his research have studied the retail franchising and FDI policy existing in India. It has explained the concept of franchising, retail and FDI. The study further mentions that India is ranked number one in retail business in the world. The research findings also highlight the recent trends of retail franchising in India. The research is based on a theoretical exploratory study.

Raghu (2003), depicts a picture of Indian franchising story stating that, franchising holds only 10 percent of the business in India as compared to 70 percent in USA. The author says that franchising has a long way to go in India. Further he claims that education sector has a good fortune in India through franchising followed by the food, retail and healthcare sectors. The study relies on the data collected through interviews of franchisors in Bangalore city of India from education, retail, food and professional service sectors of franchise system. The study is a qualitative behavioral study, which remarks on franchisor - franchisee relation in respect of franchise business in Bangalore.

Suresh (2013), in his survey said that there is huge growth potential for Retail Franchise Business opportunities in India. Franchising industry contributes close to 1.4% to the GDP and has the scope to contribute almost 4% of India GDP by 2017 with the sector growing at rate of 25-30% annually. Currently the industry in India is of the size US\$ 45.2 billion and is expected to grow to size of US\$ 168.7 billion by 2017. Opportunities are knocking retail industry doors as the industry size is getting bigger in India. The retail sector of India alone contributes 22 per cent of country's gross domestic product (GDP) and contributes about 8 % to the employment. The industry includes varied segments like clothing, food, beverages and convenience stores etc. It is time for you to explore among options to discover best franchise opportunity for your business. Foreign brands such as McDonald's and Pizza Hut have studied India's

tastes and needs and customized their products and menus to suit local preferences. Suresh has explained in details the different models for franchisee relationship models.

2.3.2 LITERATURE REVIEW RELATED TO INTERNATIONAL FRANCHISING BUSINESS

Welch (1990), according to him, the background prepares a company for international move. There are three factors that influence the decision to franchise internationally. Network spread, Expansion ethos and Learning process. Background does not influence the franchising process but it prepares a company for the move. Direct stimuli can be internal or external. Internal stimuli are any excess capacity in the firm resources, or any unique competency. External stimuli are any factors that motivate the company to franchise internationally such as orders from foreign customers, domestic competitors entering foreign market, high level of competition in domestic market and various market opportunities in foreign market. The last factor is the decision makers. Making the decision to internationalize not only depends on the company and its environment but also on the characteristics of individuals in the company such as knowledge, value, attitude and experience.

Nadia Ballard (2003), identified International Franchising in Emerging Markets: Central and Eastern Europe and Latin America, is a comprehensive, educational and yet practical collection of research and articles on the topic of cross-border franchising.

The author states that the exponential growth in the franchising sector and the frequent changes occurring in the developing countries covered in this book guarantee that the research and guidelines included here will soon have to be revised. Nevertheless, The most intriguing part of the book deals with the peculiarities of doing business as a franchise in the Middle East. From the first overview chapter on the region to the specific account of Starbucks' entry in Kuwait and the shoplifter situation at a Mercedes showroom, the section reveals some of the unique economic, cultural, religious, and managerial issues facing potential and current franchisors there. Overall, Alon and Welsh deliver an authoritative and wide-ranging account of the challenges and successes of international franchising and the great potential this business sector has in the far-reaching corners of the world in this age of globalization.

According to the first ever comprehensive report by the U.S. Census Bureau (2007), for businesses engaged in franchising which was conducted in 2007, which covers more than 7.3 million employer businesses in the US and in more than 1,000 industries at the national, state and local level. The Census also reported that franchising sector which operated in 295 industries accounted for 10.5 percent of businesses with paid employees in those industries, or more than 453,000 franchisee or franchisor-owned establishments out of a total of 4.3 million establishments. Additionally, franchise businesses accounted for nearly 17 per cent of total sales for these industries, \$1.3 trillion out of \$7.7 trillion, and 13 per cent of the total workforce, or 7.9 million workers out of a total of 59 million. Franchise businesses accounted for more than 10 percent of total payroll, or \$153.7 billion out of the \$1.6 trillion in total payroll. The Census report shows the vital role that franchise businesses play in the U.S. economy as contributors to growth and jobs for thousands of entrepreneurs and millions of American workers. This research and outcomes explains us the growth scenario and the business potential franchising industry has.

Mohd Amy et.al (2012), in their study concentrates on Malaysian business. Franchising is the fastest growing method of doing business. In Malaysia in particular, franchising has been aggressively promoted by the government since the early 1990s. However, there is little academic research to guide or regulate industry practices. Thus this research investigates the process of financial planning in developing a new franchise system. This research used action research methodology to develop a new practical framework of financial planning in developing a new franchise system based on financial planning process of a new venture business. This paper not only contributed to the body of knowledge about the effective framework of financial planning for both new franchise system and new venture business but it also has implications for policy and practice: it helped to produce guidelines for the Registrar of Franchise Malaysia (ROF) in evaluating a new franchise system. The guidelines also provide a platform for comprehensive training, and show existing franchise systems how to improve their financial planning system.

Zeidman (2005), has discussed about Franchising in China. He says in China, the Ministry of Commerce released its Provisional Measures for the Supervision of Foreign Invested Enterprises Engaging in Commercial Franchising Business. Zeidman further added that this section on franchise disclosure which expanded on the 1997

pattern is in a flawed manner but not especially onerous fashion. Hence, according to Ziedman, this procedure which was rushed through had provided some improvement in some aspects of the franchise disclosure but the new and burdensome provisions far outweighed the small palliative steps.

Menon (2013), in her paper published in the Franchising Book states that more than 400 US companies are engaged in international franchise efforts. Most of them use the model of master franchising. The international franchisee model strategy allows impressive results some franchise industry players achieve 80% of the profits from the international operations.

In India over a billion people, including flourishing class of urban consumers possessing considerable amounts of disposable income together with the continued growth of the economy have strengthened India's claim to be visible and beneficial destination for foreign investors. She has also shared vital statistics that are very important as follows:

- There are approximately 1150 national and international business formats franchisee system in India in 2007
- Around 8-10% Indian franchisee systems have entered international markets
- There is an estimated 70,000 units operating in business format franchises.
- The growth rate in franchising units from 2005-2006 to 2006-2007 was 30-35% for the last 4-5 years.

International Franchise Association (IFA), in its report published in the year 2002, mentions that taken together, product and service franchisors represent over 40% of retail sales in the United States Franchises have collectively captured majority shares of the tax preparation (67% of sales), printing and copying (71%), and specialty food retailing (55%) businesses.

IlanAlon, Cecilia M.Falbe (2006), mentions that since the 1980s, franchising in emerging markets has grown dramatically. For example, by 1995, there were 26 more franchisors in Brazil alone than there were in all of South America in 1985 (International Franchise Research Centre 2000). Emerging markets are among the fastest growing targets for investment by international franchisors. Several surveys conducted by industry experts showed that more and more franchisors are seeking opportunities in these markets.

Sofie Verbieren et.al (2005), gives an overview of the recent literature on franchising with a special focus on management control issues. The possible members of the franchising network are the master franchisees. When franchisors expand their business internationally, they can assign a master franchise in other country who signs franchise agreements on their behalf with sub-franchisees in a specified region of that country. Master franchisees shoulder the responsibility of selecting other franchisees. Further, they offer training and coordinate activities with local franchisees for the purpose of monitor performance and also for the implementation of the franchisor's strategies.

Olafemi Ayopo Olotu et.al (2011), mentions that the Business generation has been taking a new dimension in the developing countries considering the inflow of Foreign Direct Investment (FDI) through the process of Franchising. This research therefore examines the place of Franchising in the developing economy with a focus centered on the Nigerian fast food sector. Franchising was generally accepted in Nigeria and yielded good profits for the local entrepreneurs. Thus, franchising in the Nigerian fast food sector is a booming business that is meeting the important needs of Nigerians through job creation and revenue generation. Considering this view point, the author have suggested that the government should strengthen the Nifa and NOTAP towards an effective and efficient regulations and that more foreign fast food chain firms should take the advantage of the Nigerian marketing environment to enhance the competition in the business.

Frazer, Weaven & Wright (2008), in their research study mentions that Australia's franchising sector constitutes to 14 percent of Australia's GDP. It has been evolving at a very fast pace. Internationalization of the strategies for this business structure is a particular current focal point in management and marketing research. Out of the 1100 Business format franchisors (and an estimated 71,400 units operating in Business format franchises) identified in year 2008, 67 percent favored New Zealand for an international expansion.

Stanworth et al. (2001), in their research found that the most acquired advantages of international franchising to the franchisor includes the requirement of fewer financial resources, less susceptibility to political, economic, and cultural risks and internal production of raw materials. Further, the local managerial expertise are being provided by the skillful franchises since they being more familiar with local laws, language, culture,

business norms and practices to increase firm's chances of success in the franchised business.

Sequeira (2006), mentions that the internationalization of firms is of much importance for the development of a country itself. This research was undertaken in Brazil. Brazil is known to be the third biggest franchise market globally. The principle objective of this study was to understand the internationalization of Brazilian franchisors. Techniques such as descriptive statistics, multivariate analysis and non-parametric statistics were used. The results of this study demonstrated that the range of store experience and geographic dispersion in domestic market are some of the factors that influence the attitude of franchisor towards internationalization.

Fladmoe-Lindquist and Jacque (1995), while examining 10,000 individual sites of the 12 US franchisors operating internationally found that franchising reduces the monitoring costs of firms and thus promotes foreign expansion and helps in geographical dispersion of the firms.

Héctor R. Lozada et.al (2005), have investigated the establishment of franchise agreements as an important viable alternative to enter a foreign market. Especially the emphasis is put on adopting 'Master Franchising' as a strategy. The researchers first reviewed the concept of franchising and identified the 'Master Franchising' as a strategic choice. Further, they have focused on the mechanics of structuring the necessary agreements. The authors have further explored strategies, trends, and current opportunities and limitations of international franchising. The key to gain desired level of success in international franchising lies in finding the right partner for your business. The master franchisor should conduct a detailed corporate "Soul searching" and try fully understanding both its strengths and weaknesses. It must have a secure, very firm domestic foundation from which its international plans & program can be launched including adequate capital, personnel, resources, support systems, training programs and language facility. The master franchisor must know the "target market" well.

Hui-Heng Chen (2006), in his research has found out that, "International franchising" is assumed to be an entry mode having relatively low risk and commitment as compared to high risk and commitment entry modes such as wholly foreign-owned subsidiaries for many services based sectors of economy. However, there exist the issues of support and control within the franchise network to maintain the franchise relationship. The

research further identified that control mechanisms consist of two dimensions viz. an economic mechanism in the form of a franchise contract and social mechanisms in the form of the level of interaction and the support quality. He investigated that the contract, the interaction and the quality of support and the selection of entry modes are operated to control the behavior of the franchisee over the franchise network. In that respect, formal contracts and social mechanisms complement each other. Thus, well-specified contracts may actually promote more cooperative, long-term and trusting relationship between franchisor & franchisee.

Schaper (2014), provides an overview of the development of the franchising in Australia. The study provides details on history of government policy responses and the evolution of regulatory framework of franchising in Australia. It also explains the emergence of franchise associations and research and education in the selected field of franchise study. According to the findings of the study, franchising existed in Australia by the end of II World War. Initially, the activity started with automotive petroleum and later the fast food sector. It has been reported in the study that, by 1992, there were around 450 franchise systems operating in Australia and by 2002 their number had grown to 700. The latest year that the study reports is 2012 when there were 73000 franchise outlets. As per the study report, Australia had its nationwide Franchising Code of Conduct in the year 1998.

Nithya (2013), in her paper on Brand Franchise has discussed on the important topic of “How Local Franchises Are Becoming International Brands?”. She elaborates, “There’s a scope for local franchisees to expand internationally and open their franchised outlets all over the world and thus become international brands. It means the company has the finances, expertise and confidence to translate a franchise concept for a foreign culture. It may give the impression that the company has grown so big that one country can no longer contain it. But many U.S. franchise systems that boast international reach have just a few units in Canada. Not that expanding north of the border doesn’t take work, but it’s not quite as pioneering as exporting your burger brand to Nigeria or your electronics store to Yemen”. Growth from domestic market to international market can be achieved with proper planning, strategy and market mapping would be the success toll for growth and expansion.

Horowitz and Kumar (1998), have suggested that franchising is the appropriate market entry strategy in countries that are culturally distant to the home market and those that have relatively few barriers (such as stiff competition, high costs, and legal restrictions) to overcome.

2.3.3 LITERATURE REVIEW RELATED TO LEGAL ASPECTS OF FRANCHISING

Patel (2014), has published a White Paper which has very informative information on Laws governing the Franchising in India. Very less has been published or written about Law on Franchising in India. They have put Franchising in simple words as in legal terms; a franchise is a privilege or right officially granted to offer specific products or services under explicit guidelines at a certain location for a declared period of time. WE can learn from his article these below parameters which are as follows

Laws Governing Franchising in India:

In the absence of a franchise-specific legislation in India, a franchise arrangement would be governed by various applicable statutory enactments prevailing in India. A gist of some important statutes is summarized as a brief overview.

i. Contract Law

The contractual relationship between a franchisor and a franchisee would be governed by the Indian Contract Act, 1872. In accordance with the Indian Contract Act, in order to be a valid and binding contract, the Franchise Agreement must fulfil the essentials of a valid contract, such as: there must be some lawful consideration for the agreement, a lawful object and purpose and the parties should be capable of executing the contract

ii. Intellectual Property Law

In India, the primary laws governing intellectual property rights are the Trademarks Act, 1999, the Copyright Act, 1957 and the Designs Act, 2002. These legislation deals with the licensing of trademarks, copyright, systems, etc., from a franchisor to a franchisee, for the purpose of operating and conducting the franchised business. Further, under these statutes, civil and criminal remedies are available to a franchisor against infringement of intellectual property rights. For example, in case of infringement of a trade mark, civil remedies would be in the nature of an injunction or stay against the use of the trade mark and damages can also be claimed.

iii. Real Estate Law

In India, premises for conduct of the franchised business may be acquired either on ownership basis, or by way of a leave and license or lease arrangement or by way of a business conducting arrangement. The Transfer of Property Act, 1882 and the various state-enacted legislations on renting of immovable properties, govern these arrangements.

iv. Taxation Law

Taxes in India are levied by the central, state and local government bodies. Direct and indirect tax laws such as income tax, sales tax, additional tax, service tax etc. would be relevant in a franchise arrangement, as they are in any other business concept. Payment of taxes would depend on the structure of the franchise arrangement and in the case of an international franchisor, the existence of treaties between the countries.

v. Remedial and Penal Law; Alternative Dispute Resolution

In case of any dispute or difference between the parties in respect of a franchise arrangement, civil and criminal remedies would be available to the aggrieved party in India. The aggrieved party may also initiate any of the alternate dispute resolution methods under the Arbitration and Conciliation Act, 1996.

vi. Other Applicable Laws

Any franchised business set up for sale of products or providing any services would have to comply with the applicable labour legislation in India. A consumer buying a product or availing of a service under a franchise arrangement would be protected under the Consumer Protection Act, 1986. Further, depending upon the industry/sector to which the franchised business belongs, the establishment would be required to obtain certain specific approvals and registrations from different local governmental authorities. For example, a franchised outlet in the food industry requires an eating house license from the Municipal Corporation and a health license from the Health Department of the Municipal Corporation. In case of an international franchise arrangement, the Foreign Exchange Regulations and the Foreign Exchange Management Act, 1999 would be attracted. The structuring of the franchise system and the drafting of documentation for franchising in India is very crucial, because adopting readymade structures and documentation from other countries may not grant adequate protection to both, a franchisor and a franchisee in India. A competent professional franchise consultant with adequate

experience in the laws governing franchising in India would be able to tailor-make the franchise structure and related documentation to meet the requirements of individual franchisors. A well-drafted franchise structure and documentation would protect the intellectual property rights of the franchisor and grant adequate flexibility and security to its franchisees, as is required to facilitate the successful operation of the franchised business.

Grueneberg (2010), analyzed the requirements in regulation of franchise business. The study evaluates, the extent to which, having a complete law can protect the interests of the franchisor as well as franchisee and how there should be a safety and clarity observed between the two parties to franchise business. The study also specifies the contents of Franchise Disclosure Document (FDD) and the necessity of it. It further states the consequences of violating laws and elaborates on various issues which can be handled when there is a law to regulate franchise business.

Moor (2011), highlighted the basic legal aspects that the business owners, officers, directors and other persons involved in franchising should consider while expanding their businesses through franchising. The concepts such as sale of franchise, state registration, annual updates, material changes, marketing material, document retention, relationship laws, etc. have been explained in the study.

ASEAN (Association of South East Asian Nations), within the ASEAN community, Malaysia and Indonesia have both introduced franchise laws which among things legislated pre-contractual disclosure document requirements. In Malaysia, the Malaysia Franchise Act was legislated in 1998 (MFA 1998) whereas Indonesia's franchise was legislated in 1997.

James (2003), provided an evidence on the determinants of contract duration using a large sample of franchise contracts. The study proved that the duration of franchise contract increases as per the level of physical and human capital invested by the franchisee and also the franchisor's experience in franchising.

Emerson (2015), compares the franchising regulations existing in South Africa with the franchise laws in other countries with a special reference to franchisee as a customer. The research investigated the key factors of the law of franchising in South Africa such as cooling periods in franchise agreements and penalty for violation which together differentiate customer rights orientation of the South African Law from that of the other important countries. Findings of the study show that the franchise sector was first regulated

in 1970s in USA and Canada. By 1990, France and Mexico joined the count. Further by 2000, 13 more countries had enacted franchise legislations. This list includes countries like Brazil, Australia, Romania, Spain, China, Taiwan, Malaysia & Indonesia. The study found that currently over 30 countries, representing one third of the nations, where franchise business operates, have enacted specific franchise laws and these franchise regulations vary from country to country.

Azhar (2011), in his research paper on Franchisee has explained about Malaysian franchisee scenario which was under the title -A Preliminary Framework for the Franchise Disclosure Document has said that, a preliminary framework to guide this research was developed from the literature about the process of developing a new franchise system in developed nations and in Malaysia in particular. Entrepreneurs who want to develop and operate a new franchise system in Malaysia must obtain approval from the Registrar of Franchise (Malaysian Franchise Act 1998). The new franchisor needs to prepare a franchise disclosure document along with other documents such as operation manual and franchise agreement (Franchise and Vendor Development Division 1999), for submission with an application form for review by the Registrar of Franchise (Bustaman 1995; Miranda 1995. This franchise disclosure document for the new franchisee is a part of the business planning process in developing a new franchise system in Malaysia. Information from the business and financial planning is used to develop the franchise disclosure document. The findings from his research enabled the extension of the preliminary framework that has been developed based on the literature and produced two main conclusions. The most important first conclusion states that the findings of this research added another four elements of financial planning to the original five elements. or the second conclusion, the findings of this research added another element to the 15 non-financial elements first considered for a franchise disclosure document.

He has also explained that in summary, 25 elements of the franchise disclosure document (9 elements of financial and 16 elements of non-financial) were determined to be included in the franchise disclosure document for a new franchise system in Malaysia.

Popa and Ponorica (2012), carried out a research to study the essential key elements of franchising on the basis of the legal phenomenon rather than based on the economic

one. The article also analyzed the behavior of existing and future entrepreneurs regarding the possibility of implementation of this legal instrument. The research was conducted with a focus on emphasizing the place of franchise in the current business context. Findings were obtained by centralizing and interpreting the responses received through the questionnaires which were circulated to 52 entrepreneurs from the various sectors of business activity such as: coffee shops, fast-food, education, beauty and furniture. The research outcomes were found to be consistent with the hypothesis that, even if, according to the statistics, the franchise contract is successfully imposed in the business world, there is an enough restraint in adopting it as a development measure. The study also showed restriction from the entrepreneurs having small businesses in adopting it.

Waterhouse (2009), has discussed a very important topic of legislation of Franchising in Europe, in his 2009 year report he says that except in the US, and now in China (2007) where there are explicit Federal (and in the US, State) laws covering franchise, most of the world recognizes 'franchise' but rarely makes legal provisions for it. Among countries which have significant disclosure laws include Australia, Canada, and Brazil. There are six European countries that have enacted a franchise disclosure law (Field Fisher Waterhouse, 2009). These six countries are Belgium, France, Italy, Romania, Spain and Sweden. In addition, other countries which include Germany, Austria, Portugal and Lithuania have general "good faith" type laws that can give rise to franchise disclosure obligations ("Good Faith Laws").

Mrabet (2005), have termed Franchise as a magic formula that every businessman wish to have & implement for obtaining success in their own business. However, according to the theory, for achieving success in franchising, the franchisor has to transfer initially the essential key elements of their business to the franchisee. Further, there should exist mutual co-operation, trust, loyalty and good faith among franchisor and franchisee to establish a healthy and fruitful relationship. This process is not so easy to establish. It is quite likely that both the parties may have different interests and this may lead to getting in to conflicts. To address these issues of conflicts, this research suggests that, a draft of contract should be worded with utmost care having all key elements prescribed in it. All the responsibilities of both the parties involved are recommended to be included with a good clarity while drafting the contract.

Alam (2007), mentions franchising as a form of co-operation between two parties that is the franchisor and the franchisee. It is a conceptual study, where the author clarifies certain features specific to the franchise business. He states that the franchisee is restricted by way of agreement, from adopting any market changes. The main objectives of this study were to understand the franchisees' perspective in the business and also to study the level of control exercised by the franchisor. The study is conducted among the retail stores in fashion industry as it is more adaptive to changes in the market and the case study method has been applied. Findings of the study state that the franchise agreement is the final and central control point through which the franchisor exercises control over his franchisee units. The franchisee has a negligible right to change the merchandise supply, interior looks of his store or any marketing strategy.

Jonathan (2007), studied the effects of contract regulations in franchising. The study mentions that in the absence of effective control through monitoring and providing incentives, franchisees may attempt to free-ride. In spite of control and incentives, if the franchisees do not stop free-riding, the franchisor may terminate the contract. This is a justifiable situation for termination. However, there are times when franchisee is performing well but still the contract with such franchisee gets terminated. The reason for this is that the franchisor prefers to acquire that unit which is profitable. This is an injustice on the franchisee who has worked for the growth of such an unit. To overcome this, the regulation was passed in IOWA law in United States which would protect the interest of the franchisee. The findings of this study showed that after IOWA law was enacted there has been a drop in the rate of granting franchise. Instead, the firms set up their company outlets. Similarly, it was also found that the employment rate was found to be less as compared to the employment prior to introduction of IOWA law.

Buchan (2009), in his research mentions that the key commitments between franchisors and franchisees are included in the franchise agreements. Before entering into the agreement the franchisor is obliged to provide the franchisee with pre-contractual disclosure which complies with the code of conduct to be followed by both parties involved in franchise business. Moreover, it should give an idea about the network of the franchisor, financial status of his business and legal fitness as well. The study further specifies that the selected place of research study i.e. Australia, does not have a specific law to regulate franchising business hence it relies on the contract law which is

common law for franchise business. Therefore, the formal agreement signed between franchisor and franchisee is treated as the key legal document. It is normally considered that the code i.e. the agreement protects the franchisee from most likely risk areas.

Espinoza (2009), investigated the concept of 'Encroachment' in franchising business.

Encroachment is explained as a phenomenon that occurs when the franchisor expands its chain network beyond a specific point in the same geographical territory. This expansion negatively affects the existing franchisee in that area whose business performance gets affected as the customers get distributed between the franchisees. This in turn affects the overall performance and growth of franchising business. The research also reflects on how the courts should deal with such type of encroachment acts of the franchisor to save the interest of the franchisee who may face business loss especially when specific franchise regulations are absent in the country.

Shah and Parikh (2003), state in their information article that though the commercial and business laws govern and protect a franchise arrangement, there is always growing need to improve legal and regulatory frame work. They analyzed various legal issues pertinent to franchising arrangements in India and underscored the importance of properly documenting the franchise agreement. They also outlined various franchising arrangements in India like Invention licensing agreement, trademark licensing agreement, character merchandising agreement and dealer/distribution/marketing arrangement. They also discussed various pro and cons, legal issues and enforceability of franchising agreements.

They also identified following important issues while an agreement is being negotiated:

(a) Scope and Subject Matter (b) Licensing and Protection of IPR (c) Obligations of franchisee (d) Consideration and Taxation (e) Termination and its Consequences along with notice indemnification (f) Governing Law and jurisdiction (g) Arbitration.

Waterhouse (2009), has discussed a very important topic of legislation of Franchising in Europe, in his 2009 year report he says that except in the US, and now in China (2007) where there are explicit Federal (and in the US, State) laws covering franchise, most of the world recognizes 'franchise' but rarely makes legal provisions for it. Among countries which have significant disclosure laws include Australia, Canada, and Brazil. There are six European countries that have enacted a franchise disclosure law (Field Fisher Waterhouse, 2009). These six countries are Belgium, France, Italy, Romani, Spain and

Sweden. In addition, other countries which include Germany, Austria, Portugal and Lithuania have general “good faith” type laws that can give rise to franchise disclosure obligations (“Good Faith Laws”).

James (2003), in his study provided evidence on the determinants of contract duration using a large sample of franchise contracts. The study proved that the duration of franchise contract increases as per the level of physical and human capital invested by the franchisee and also the franchisor’s experience in franchising. The study uses one way ANOVA and Chi square techniques to analyse the data.

2.3.4 LITERATURE REVIEW RELATED TO CONFLICTING ISSUES AND FRANCHISEE -FRANCHISOR RELATIONSHIP

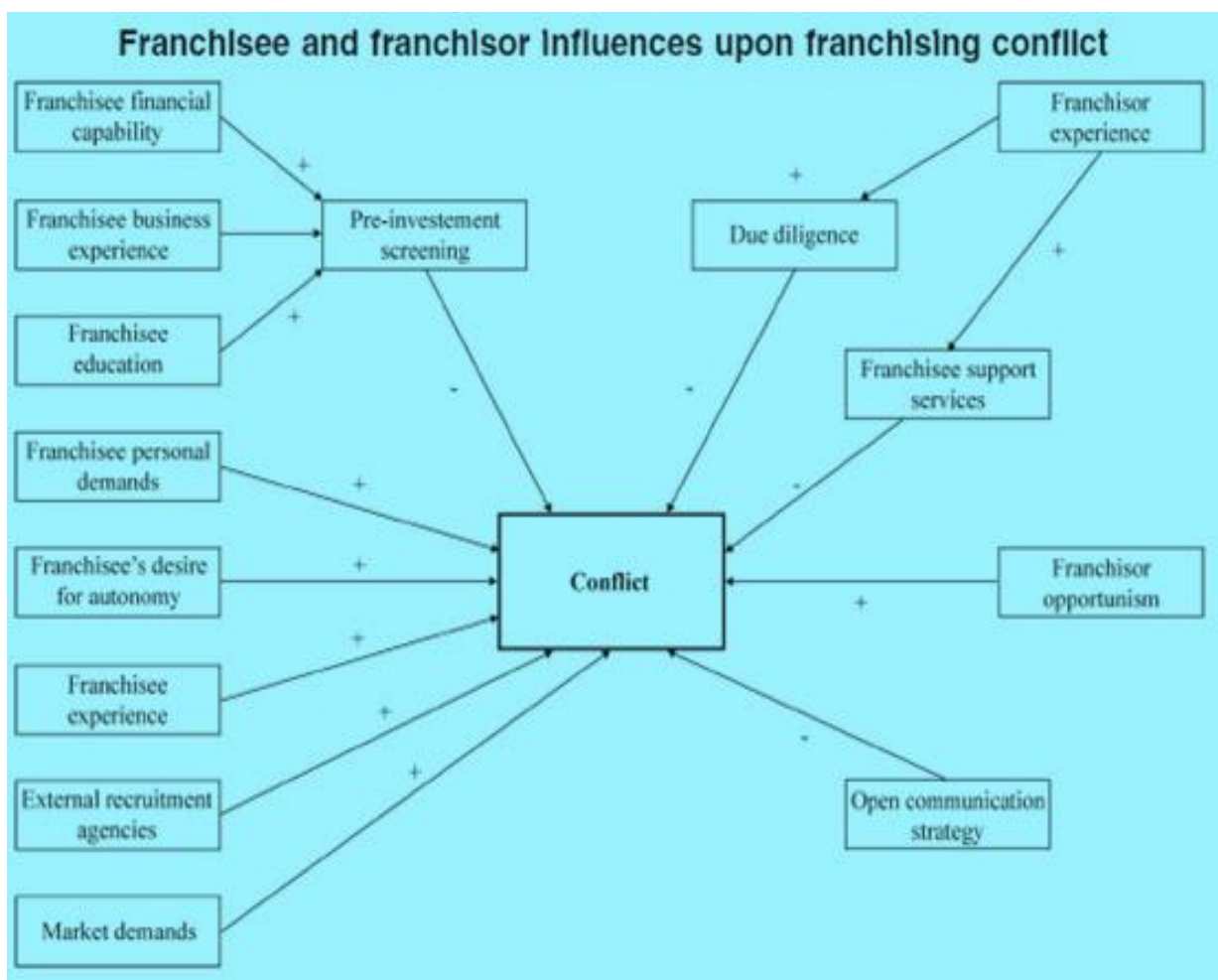
Strutton et al. (1993), argued that conflict seems to be an inevitable by-product of franchisee and franchisor relationships. The success of a franchise system often depends on the effective use of conflict resolution strategies by the franchiser. They stated that in case of conflict resolution using problem solving technique compared to litigation, conflicts are resolved through deliberation, reflection, and discussion. Further they stated that the success of a franchise system depends on the effective use of conflict resolution strategies by the franchiser. They concluded that a franchiser that uses intimidation without considering the repercussions may do more harm to its brand than good and the franchising systems characterized by cohesion, fairness, recognition, and innovation should make franchisees more willing to listen openly, exchange information, and use problem solving when conflicts with their franchisers arise.

Other areas of the survey which were omitted for their study includes formal franchiser conflict resolution processes, conflict resolution training, and provision of field staff, number of units, contract terms, start-up investment, prior year turnover, location, gender, age, level of formal education and the age of franchise system.

Giddings and Weaven (2011), has described the Franchisee Conflict preliminary conceptual model in form of a Flow Chart Format. He adds to his research as conflict was promulgated in many systems on account of franchisors continuing to emphasize lifestyle benefits to prospective franchisees, which contrasted with the realities of franchise operation, fostering incentives misalignment (and ultimately conflict) between principal and agents. Misrepresentation by third-party agencies was nominated as a

major source of franchising conflict of greatest concern since these agencies were frequently viewed as unqualified, often providing inaccurate advices to prospective franchisees. Conflict resolution and management is also explained in his work and give us an amicably accepted path to resolve the misunderstandings, misinterpretations and conflicts arising due to operational as well as financial issues. As shown in the following Figure 2.1, he has explained it in form of flow chart about the Franchisee's and Franchisor's influences upon the Franchising conflict.

Figure 2.1: Franchisee and Franchisor Influences upon Franchising conflict.



Source: Secondary Data

Ray Borradale (1997), indicated that many franchisees were failing to make use of available mediation services to resolve the problems with their franchisor. The Franchising Code of Conduct makes explicit provision for access to cost-effective

dispute resolution and mediation procedures, yet only two per cent of franchisees surveyed used mediation to resolve conflict with their franchisor.

Taylor (2010), surveyed several franchises in Australia and concluded that there are five main causes of franchise conflict. They are:

- i. Lack of due diligence by franchisers and franchisees: Although franchisees are often in the spotlight for a lack of due diligence, the research revealed some franchisers also need to improve. Impacts of poor franchiser due diligence includes poor franchisee recruitment practices, poor judgment of the business model's suitability for franchising, insufficient resources to provide adequate support services, and unrealistic expectations regarding the cost and time to design and provide effective support systems. A lack of due diligence by franchisees leads to unrealistic expectations and increased levels of franchise conflict.
- ii. Third Parties / Franchisee Recruitment: Poor franchisee recruitment practices also contribute to conflict and franchisee dissatisfaction, and may include the use of third parties, particularly if their financial connection with the franchise doesn't extend beyond the initial sale.
- iii. Communication: Communication or rather the lack of it is another major cause of franchise conflict. The communication practices which actively involve franchisees seemed to be the most successful.
- iv. Market Conditions: Market conditions can also have an impact on franchisee satisfaction and conflict in a franchise business. The research revealed many cases where market conditions, such as increased competition, were withheld from potential franchisees.
- v. Franchisee Personal Conditions: Economic and personal demands placed upon franchisees and changes in franchisee circumstances often generated franchisee dissatisfaction and conflict. This leads to franchisee dissatisfaction and reduces their loyalty to the franchiser. Franchisers need to use a franchisee recruitment message which is consistent with their franchise and franchisee lifestyle.

Bin (2011), studied various reasons for the multinational companies to enter into franchise network. The study also analyses the possibility of conflict and the related issues between the parties to a franchise business. Further, it recommends the ways to solve the conflicts of interest that arises between franchisor and franchisee during the course of

business. In the conclusion, the researcher explains the specific steps a franchisee can take in order to meet the network expansion challenges in franchising.

Frazer (2012), describes five major reasons for conflicts. While disgruntled franchisees around the world might want to add to this list, it should be recognized that this information pertains to causes that do not involve deliberate misrepresentation.

Frazer recognizes franchiser-franchisee conflict is not only inevitable, but a necessary part of a dynamic business relationships. The five main causes of conflict are: i) Lack of due diligence by franchisers and franchisees (ii) Third Parties / Franchisee Recruitment (iii) Communication (iv) Market Conditions and (v) Franchisee Personal Conditions.

His research reveals a greater awareness of the roles in the franchise relationship can assist the franchiser and franchisee to develop greater levels of trust and commitment, and minimize conflict.

Tseng (2007), in his research have found that the high quality of the franchisor-franchisee relationship will lead to gain the customer trust and perception of honesty and an improved dealer business performance in the future taking in to consideration the satisfactory past performance. Service providers can continue to receive feedback on their services provided to the customers and hence also indicate more information on business development to the clients. This will directly help the firm provides strategic direction for the future business stability and will maintain the good quality relationships with clients.

Marya (2013), in his Book on Franchising -The Science of Reproducing Success mentions that Franchisee-Franchisor relationship is a symbiotic relationship. He further states that it is like “I give, you take, and you give, I take” sort of relationship existing between the franchisor & franchisee. The Franchisor who lends his trade name, brand, processes, operations, systems and the Franchisee which pays for the rights to do business under the Franchisor’s name and system stand to mutually benefit from franchising. In a real sense Franchisor is a bold Entrepreneur who has set up a firm from scratch and he is planning for expansion in a specified territory. On the other side Franchisee is an entrepreneur whose main job is to take care of the Franchisor’s legacy like a guardian. With this arrangement both franchisor & franchisee benefit from getting in to the relationship. The Franchisor finds the franchisee necessary for his business growth, and the franchisee sees the franchisor as a model for his own personal growth to become true

entrepreneur. Further, he has also mentioned the Franchisee -Franchisor relationship as partnership. He says that the relationship between the franchisor and franchisee is sometimes compared to that of marriage as it required equal amount of commitment from both the sides and to make it successful business venture and viable on both the parts. Effective communication is the success mantra & it plays a vital role in successfully running the business . All communication must be honest, faithful and transparent and also helpful. The franchisor and franchisee are equally involved and both stand to gain mutual benefits from it. He has also referred the relationship as that of parent and child, the franchisor obviously being a parent to guide the franchisee who is the child that needs a constant helping hand and the necessary support in its initial stages business cycle.

Justis and Judd (2002), describes that relationship of franchisee and franchisor passes through four phases as follows:

Introduction: This is a phase where both parties have lots of mutual expectations and believe that those expectations will be fulfilled to a large extent.

Growth: It depends on the available resources. The relationship deepens during this phase because training and support happens during this stage of franchising and it leads to having a suitable foundation for the type of relationship both parties could be having during the later stages.

Maturity: It indicates that the parties are known to each other mostly. They know their working style and thus know well what to expect from each other. If the relationship stands good and firm then it grows further and in the process the understanding deepens. However opposite may happen in case of poor relationship between franchisor & franchisee.

Decline or Development: This is a crucial stage that decides whether the mutual relationship goes to the next level further or it goes futile. If both parties witness positive vibes and the mutual relationship stands firm & healthy then there is successful development and if the relationship stands negative then it indicates that the agreement is getting over in most of the cases.

Nathan (2010), has refined the relationship between franchisor and franchisee into six different stages of franchising. Any relationship takes time for the development and it passes through different stages. The experience of all these stages is different as everyone who passes through them have different environmental condition (climates and

surroundings). It is important for them to pass through all the stages to have a successful mutual relationship at the end. These stages are: The Glee Stage, The Fee Stage, the I stage, The Free Stage, The See Stage, and The We Stage.

Thus during these stages it is clear that both the partners via franchisor and franchisee have to be mutually compatible in a way to lead to a co-operative behaviour by each other. Since there is constant communication and expectations between franchisor and franchisee, it becomes important to note the variables that affect the mutual relationship.

Beatson, Lings & Gudergan (2008), mentioned that a high quality of relationship between franchisor and franchisee will lead to low switches and thus will lead to higher loyalty. Loyalty is an essence of a franchisee to continue the business and relationship in any evoked consideration set. It is a strong sense of working together for a long time and maintaining long term relationship. It is the focal point of the relation and implies a favorable attitude and retention of franchisee.

Croonen (2008), cited about antecedents of franchisee's perception about trust which included franchisor's concern regarding franchisee's interests, franchisor's openness, reliability of franchisor and its competence. Thus trust leads to positivity in the relationship. It means that if the trust between parties is present then no one will question each other in disbelief and it will not generate uncertainties in the relationship.

Dwyer *et al.* (1987), mentioned that Commitment is the construct which defines whether the relationship will be successful or unsuccessful. Commitment is defined as the parties' firm and consistent motivation to maintain a relationship that is valued by them. It is the highest stage of relational bonding. There are three types of commitments- affective, continuance and normative. Affective commitment is the extent one partner feels attached to other. Continuance commitment is the cost of leaving the organization as perceived by one party. Normative commitment is the obligation one partner feels to stay with other partner. Out of all the affective commitment plays the most vital role in the relationship quality.

Kaufmann and Dant (1992), mentions that the quality of the relationship between the franchisee and the franchisor can be defined through four key dimensions: (1) long-term focus on the relationship, (2) appropriate use of power, (3) flexibility in the relationship, and (4) mutuality in the relationship. The first dimension - long-term

focus - measures the degree to which the relationship between the franchisee and the franchisor is perceived by the parties as something more important than individual transactions. The second dimension - appropriate use of power -implies that, despite the fact that the contract establishes the power that legitimately corresponds to each part in are rational structure of governance, the parties will voluntarily limit the use of their power in order to preserve the relationship. The third dimension - flexibility, implies adaptation to change. Thus, when changes take place in the environment, both parties must adapt their behaviors to the new circumstances in order to preserve the relationship, despite the contractual provisions. The fourth dimension – mutuality - reflects the expectations both parties have in terms of the reciprocity of their exchanges over the long term. The relationship between a franchisor and franchisee is a lot more complex than traditional buyer-supplier interactions, not only are there certain responsibilities in a franchise relationship to retain the value of the trademark, but the relationship are also sensitive to conflicts due to power and dependence between the parties.

2.3.5 LITERATURE REVIEW RELATED TO CHALLENGING ISSUES IN FRANCHISING BUSINESS.

Shakantu *et al.* (2007), had made a study about obstacles and constraints to the development and growth of SME. He found that the challenges faced by these SME's include business and environment regulations; inadequate technology and infrastructure; tax and labor; lack of management skills, political interference; poor business sites; and limited access to international markets and difficulty to access to finance.

Marya (2012), in his Annual Report on Franchisee 2012 has said that Indian Franchisee Industry has faced many challenges in past and many more challenges are still prevalent in today's scenario. He Briefs about:

1. Correct approach to fight the Indian Diversity
 - a. A balanced and well informed decision should be taken while going for a Franchisee Business.
 - b. Opting for a right location with knowhow on the locality demographics
2. Soaring Real Estate Prices

- a. High Real Estate prices pose a major threat as continually increasing prices disturb the investment ration
- b. Real estate eats up the major part of the investment which does put pressure on the franchisor, franchisee or investor if things don't fall in place.
- 3. Belief that Franchise Royalty payments are very high
 - a. Many of the potential investor assumes that the franchise fee, or the royalty fee is very high, high puts them on back foot. However, the mind-set are changing, people are now a days more aware of the franchisee business and its modalities, by various platforms, consultants, exhibitions these beliefs are changing to some extent.
- 4. Requirement of a strong legal Framework
 - a. Absence of legislation is causing hindrance in growth of the franchise industry
 - b. Legislation will bring transparency in the franchisee industry, thus improving standardization in operations.
 - c. Confidence of franchisee investors will increase
 - d. Strong legal framework is required to assist the agreement section where many cases appear which are difficult to be resolved under the current scenario.
 - e. Apart from several laws that administer the franchisee agreement, it does seem to baffle a franchisor as such a taxation laws, intellectual property law, trade and exchange regulations, labor laws.

India being a vast country with diversity in many ways it poses beneficial in many ways but also poses a challenge due to legislative gaps that surrounds the franchisee business environment.

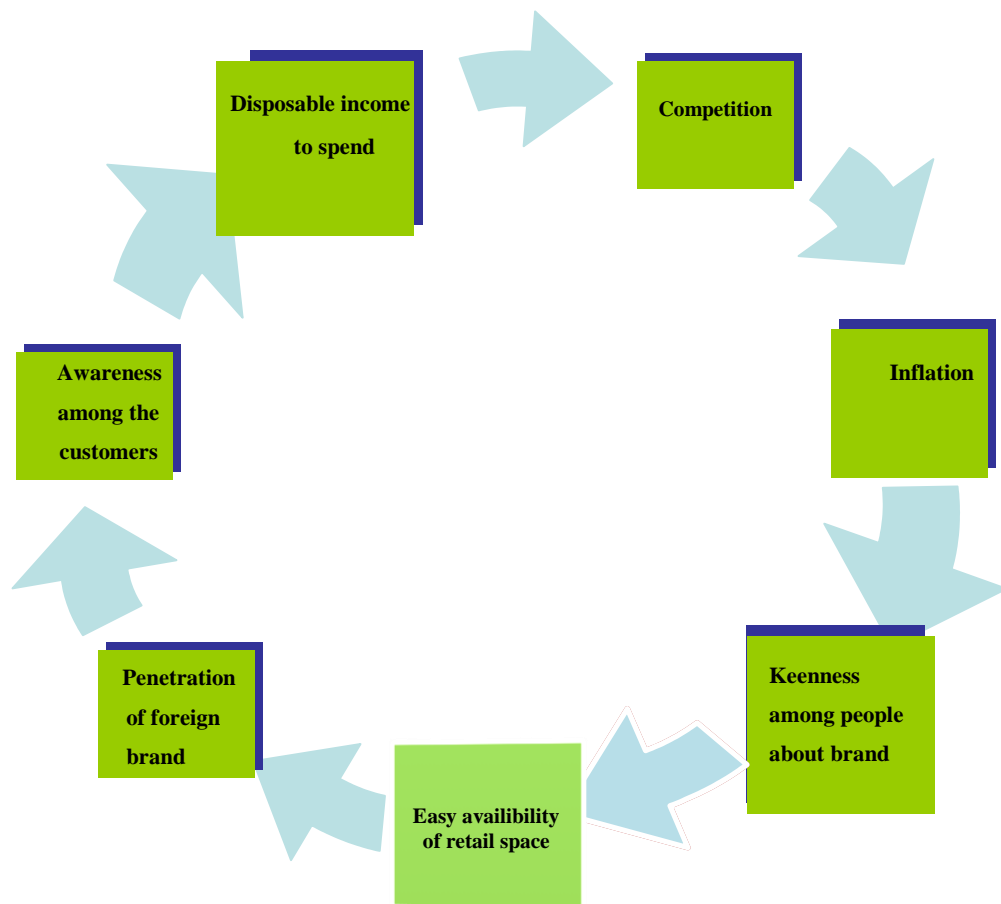
The franchisee horizon in India seems positive and robust for growth. After a detailed business analysis sector wise that will guarantee business success to the investors as well as ride the industry growth average to greater heights.

Burkle and Posselt (2008), stated that franchising is not risk free. It is not like working in a job. Entering any small business, including a franchised business, carries with it a degree of risk. Businesses take time to get established, so one need to have adequate working capital and perseverance for the first year or two. Some geographical areas are more affluent than others, there are different ethnic mixes, some areas have greater competition and some locations are better than others. The economy has its ups and downs and if one happens to be the first franchisee in a system the level of risk is

higher than for later franchisees, but the reward may also be higher. If there are more successful franchisees in a system the degree of risk is reduced, but there are still risks relating to the locality or geography of the business.

Kumar (2014), has emphasized on the Factors Affecting Prosperity of Franchising in Retail Business. In his white paper, he has depicted the details of a franchisee cycle and their characteristics. An Interdependency of each parameters and their effect on each other can be understood form the below Figure 2.2. Though these heads are self- explanatory their occurrence and dependability pattern marks the importance of the Franchise cycle.

Figure 2.2: Figure: Franchisee Cycle



Source:

Secondary

Data

He also explains in details the Limitations of Franchising in India as mentioned below:

- i. Political instability.
- ii. Underdeveloped financial statement.
- iii. No proper legal system that protects intellectual property rights and upholds contractual obligations.
- iv. Underdeveloped infrastructures.
- v. Low income of customers.
- vi. Entry barriers.
- vii. High exit cost.
- viii. Huge investment.
- ix. Lack of awareness among the customers about the available brands in the market.
- x. Unavailability of cheap retail space.

Beesley (2013) has published in her paper about Credit Crunch that Franchise Industry has faced during 2008. Credit crunch was a major factor to influence the financing of franchisees and this has impacted the growth of the appointments in new franchised outlets. She says that financing remains a problem for potential franchise owners. According to Entrepreneur magazine (January 2013), there's still an 18 percent lending shortfall in the franchising industry. In a bid to boost franchise ownership, many franchisors are taking matters into their own hands and offering financing programs of their own. Mein eke, The UPS Store, Gold's Gym, Masage Envy and Instant Imprints are just a few examples of franchisors now offering financing to qualifying first-time and multi-store franchise owners. If you are new to franchise ownership, be sure to do your research and due diligence about the franchise system. Study the Franchise Disclosure Document (required by law) and speak to other franchisees about the brand and the financing program on offer.

Vivian (2004), mentions about a common dilemma that the franchisors experience. It is about the possibility of misuse of brand name by the franchisee. The study analyses the viewpoints of Brazilian and French food franchisors. The study relies on primary data collected by way of interviews and elaborately presents the franchisors' opinions on the steps to be taken to avoid misuse of franchisor's brand name.

International Labor Office (ILO) (2006), studied the challenges faced by the entrepreneurs. These constraints were classified in some categories and those including poor information system, lack of planning, the business environment and market, insufficient information and delayed payment; and inadequate knowledge with, financial, technical and managerial issues.

Gurmeet *et al.* (2010), in their research, studied the problems faced by SMEs in the internationalization process. The study was descriptive in nature encompassing both quantitative as well as the qualitative data. Using a structured questionnaire the data was collected from 118 and 78 respondents in Fiji and Samoa respectively. The research concluded that the main issues observed in the two countries were government paperwork, government regulations, locating qualified employees, advertising, pricing, competition with other businesses, employment regulations, electricity and telephone costs.

Kisunko *et al.* (1999), conducted a study among more than 360 small business owners in 69 countries regarding the obstacles encountered by the entrepreneurs and indicated that the problems encountered by entrepreneurs were quite similar. High taxes and tax regulations are the most critical problems in South and Southeast Asia. Inadequate infrastructure, inflation, labor regulation, and laws governing the starting and operating a business were also considered as obstacles preventing entrepreneurs in the region from achieving their goals. Lack of infrastructure, corruption, high tax, tax regulations, and financing were also found to be critical for MSEs in Middle East and North Africa.

Hunt (2011), mentions in an article titled, “Improving the Environment for Franchise Lending” that, franchisees do not get loans from financial institutions because they are inexperienced in obtaining a business loan. The author explains that business loan has a different application process than other types of loans. According to this research, when banks intend to provide loans to the franchisee, the banks want to know about the credit worthiness of the particular applicant franchisee. The bank also needs to know, the experiences of the applicant in the business, performance of the other franchisees of the same franchisor, the level of franchisor support, the length of the franchise term and many more such information details related to the prospective franchise that the applicant wants to start.

Obed (2000), have studied the critical barriers for the successful firms and concluded that unsuitable location of the business, lack of technical skills, lack of knowledge and

experience of management, poor financial ability, poor construction practice and poor technology and equipment are the principle challenges for the entrepreneurs to get success in their business.

Dr.Rachna Saxena and Kinshuk Sinha (2013), states that the important and concernig problem hindering India today is the credibility and viability of micro finance in rural sector. Gender discrimination, rural poverty are undermining the potential of micro finance and translating growth into dispersion of human development. The underlying poverty in India has galloped the dreams of many in the nation. The paper thus discusses the eminent role of microcredit and micro franchising. It also emphasizes on the fact that an aptitude search is needed in villages to identify entrepreneur skill set”. The concept of Micro- franchising for developing countries can be a boon to provide for employment to a large population and add to the development of individuals and country.

Bilal and Al Mqbali (2015), in their research have studied the obstacles faced by Small and Medium Enterprises in Oman, especially in Al-Batih Government. Based on this study the researchers concluded that the main challenges were related to investment environment at the priority, followed by the challenges related to the capabilities of business owners, challenges related to the finance, challenges related to community and challenges related to the marketing.

Keogh and Evans (1998), conducted an in-depth study to find out the strategies for growth and the barriers faced by new technology-based SMEs. The data was collected by means of the in-depth interviews with owners, directors and senior managers of 20 engineering companies, analytical services and software developers of Scotland. They concluded that the main barriers to SME’s growth include - having the right people and access to finance.

Abizadeh (2009), in his research have found the cultural obstacles of franchising in Iran. An interview guide was designed based on Hofstede’s cultural model to identify the cultural barriers. The interview was conducted among owners, managers, and employees of two of the biggest franchising companies that were already working in Iran. They found that main cultural obstacles to franchising in Iran include : Uncertainty (from lack of copyright law to currency risk etc.), society inequality (the high to low level of income, wages, gender inequality, beliefs, values, language, norms and other cultural elements), employees attitude and managers behavior and tall hierarchy of company.

Lougui and Nystrom (2014), in their research have conducted a study about the obstacles faced by the entrepreneurs. The researchers used an unique database consisting of more than 30,000 observations during the period from 2005 to 2009. The results indicate that apart from general questions and concerns, taxes, laws and permits are the other important issues faced by the entrepreneurs. They further found that, current or future entrepreneurs more often need help related to financing, grants and business plans. The researchers have not found any gender differences regarding the need for help.

2.3.6 LITERATURE REVIEW RELATED TO SUCCESS AND FAILURES IN FRANCHISING BUSINESS

Otokiti (2004), in his research mentioned that the success of the franchisor depends on the success of franchisee. Therefore the franchisors attempt to select franchisees that will work hard and take the responsibility for their outlets, yet be willing to listen to advise and cooperate.

R.S. Sodhi (2012), mentioned that he has achieved huge success with 7000 franchised outlets of Amul since their inception for retailing in 2001. He has shared his success story in Indian Franchise Report 2012. His focus on franchisee appointment is choosing right franchisee owner and maintaining right quality and standards being a food items and food industry products. He says that an Amul's retailing franchisee can open a franchisee only after fulfilling of following conditions

- i. 1. Location: Possession for shop having an area of 100-300 Sq. Feet in a prominent location with good business potential.
- ii. 2. Financial capacity: Readiness to invest an amount approximately to 2 lakh rupees for Amul Preferred Outlet and Rs.4 Lakh for scooping partners.
- iii. 3. Credentials: sound business acumen, sound credit worthiness, willingness to sell entire range of Amul products and complying with guidance provided by the company from time to time.

He also puts major focus on standard and process to maintain uniformity in the market and ensure that the customer gets the best of product with 100% product and service satisfaction.

Mathur (2012), describes his success story from 2001 then he started the Franchisee business of Euro Kids they have now grown to 857 Outlets and 23 COCO Models in India. Revenue for

2011-2012 has been clocking in tune of INR 50 CR. They have been in to franchising for 12 long years and they have around 500 employees. He holds a vision of becoming a world's dominant preschool education provider, the group is making successful foray in to various nations like Middle East, Asia-Pacific and SAARC Countries including Nepal, Dubai and many more.

He claims that in the preschool business, the major focus has to be training the teachers and the systems and processes. There has been constant research and development in the teaching material and way of imparting knowledge to the tiny tots. Enrichment in the pedagogy, the brand take care that the franchisees are amply updated. The franchisee of Euro kids has support both in terms of operational expertise and terms of pedagogy from a highly effective team. The training for franchisee includes operations and management trainings. The faculty forms the most important resources from Euro Kids. They believe that the teacher plays a vital role in influencing the child. Apart from annual orientation they train their teacher round the year to ensure they are completely prepared for their responsibilities. They also update the teachers with the latest trends in early childhood and from time to time. Every year Euro Kids organizes Excellence Awards at Mumbai and the winners are felicitated and across India are recognized for their performance and contribution towards the success.

Hung et al. (2011), tried to find out the motivational and success factors, problems, and business-related stress of entrepreneurs in small- and medium-sized enterprises and their relation to success of entrepreneurship in china. A total of 196 entrepreneurs in Beijing, Shanghai, and Guangzhou were randomly selected for the study. He found that increasing income, becoming their own boss, and their desire to prove themselves as successful persons were the most important reasons. The success factors found were reputation for honesty, providing good customer services, and having good management skills. Friendliness to customers and hard work were also critical for high-performance enterprises. Among the problems he concluded that unreliable/undependable employees were the most critical. He also came up with the result that showed intense competition and lack of management training the great challenges for Chinese entrepreneurs.

Strauss (2014), has explained in his work about the most important point in franchising industry today is about failures and downfall of franchising business world-

wide. In his work he has put in simple words 13 reasons why franchisee fails by committing these mistakes. He send a precautionary words as - beware, rarely is business simple and in the franchise world the business is never really yours.

1. The term “hot new franchise” is an oxymoron. The benefit of a franchise is really to buy something that’s been proven over a period of time. Hopefully something that’s been proven over different economic climates. So it’s done well in good times and in bad.
2. Don’t buy a franchise to “be your own boss” or “control your destiny”. Franchising is based on conformity and uniformity, not freedom. As a franchisee, you do not really hold the reins.
3. Franchises fail with about the same frequency as independent businesses. Don’t be seduced by vague statistics or common wisdom; do careful research on the specific franchise you are considering to determine how many franchise owners are still in business through the full terms of their franchise agreements.
4. Don’t be seduced by positive press clippings, industry rankings and awards. It’s not uncommon for the members of his website to report mass unrest and failure at franchises that are being championed by the entrepreneurial press.
5. Seek out franchisee complaints online. Before signing a legally binding contract with a franchise organization, it may be a good idea to see what that company’s critics have to say.
6. Hire a seasoned franchisee attorney before you sign a contract. The number of people that buy into a franchise without having a lawyer explain the contract agreement to them is quite surprising.
7. Be wary of free franchise “coaches” and consultants, These consultants live on the web and are ultimately a lure for the franchises that hire them which at times end up guiding you to failure.
8. Understand that the franchisor holds all the cards; Franchisees are not part of a larger collaborative relationship and they are not part of a team and that the controlling force has the upper hand at all times.
9. Don’t expect government oversight or help; Franchisees are not consumers and not protected as such, they are considered entrepreneurs and business investors.
10. Understand that franchisors can succeed even if franchisees fail. Even Though it’s true that the home office can make more money if its various locations do well, they can rake in plenty even when they’re not.

11. Spend time with franchisees and in franchise businesses you are considering. If you want to make an organization your life – at least for a few years – considers spending time working for it before you buy in.

12. Imagine failing –The most and important think any new franchisee taker must do. It takes confidence and enthusiasm to start up your own business, even if it is an established franchise. Keeping your hopes up can lead to setting aside the idea that you could fail. It's important to have a positive, optimistic attitude, but don't roll the dice without considering the possible effects of the worst-case scenario.

13 Consider doing it yourself – Believe in own self and be you own boss. How much are you really getting from a larger franchise organization? Is it worth the monthly payments to the home office?.

Paynter (2002), conducted a survey on Determinants for Franchisee Success and Franchisee Satisfaction Parameters in Auckland, New Zealand. The franchisee satisfaction survey was an opportunity to examine the franchisees, and based on this examination, to further explore the relationships between franchisees and franchisors. The survey was set up as an international study with twelve participating nations. Each nation was responsible for running its survey. To obtain a realistic sample size in each country, the fast food industry was targeted – one of the few industries present in each of the 12 countries. The franchisee satisfaction survey forms measured 12 factors (using 91 questions, some of them of more than one part). The factors were: overall assessment (1), financial (13), and relational (7), support services (5), brand image (5), entrepreneurial control (5), encroachment (5), communication (6), contract fairness (8), training (5), general (17) and demographics (14). The survey responses were coded using SPSS and further analyzed using Excel. From these a response of 54 completed forms was received.

Lahiri (2012), mentioned in his exclusively published interview in the Indian Franchise Report 2012 about NIIT Franchisee business model and its modus operandi. He has expressed clearly in his research study about how adopting a Franchising route has helped NIIT to achieve the desired success. NIIT have grown to 3,700 employees since their inception in 1981. They have been into franchising since 22 years. Franchised outlets have grown to 828 while Company owned outlets have grown to 87 on all India basis. The total revenue generated during period 2011-2012 was Rs. 1,260 Crores. The author believes that in

the overall success there was found to be the Feed Back Process which he further mentions that NIIT has been organizing hub meetings, regional level meetings and national level meeting on regular intervals with its partners. The important objective of holding such meetings was to collect the ground level inputs and understand the field level pulse of operations and then to brainstorm, innovate and generate new ideas to serve the customers in a more efficient way. It helped them and their partners to establish a direct connect with the senior management.

For handling disputes and conflicts, they had developed an online grievances redressal system, with a well-defined self-escalation matrix that monitors all unresolved issues and reports to the highest level of authority in the organization. Further, the Turnaround time (TAT) for each redressal was also pre-defined. NIIT has a transparent system where a partner can talk to highest level of management at ease. The entire team of NIIT work in unison with their partners from all levels of management. There exists a joint ownership in customer satisfaction activities. Acknowledging Partner's achievement is the integral part of NIIT Channel Management. Various recognition schemes for Partners in Cash, online flashing of results, regular bulletins, newsletters of performance are some of the ways of recognizing achievements. Franchisor sponsored Trips and free seminars/ Trainings are also awarded to the franchisees as a reward and recognition.

Chabbara (2012), mentions in an exclusive interview conducted by Franchise India Holdings, National Report 2012 on Franchising. He has expressed clearly in his case study about how Franchising route has helped Archies in opening 300+ franchised outlets and 200+ COCO (Company Owned Company Operated Outlets) & achieved the success. Since their inception in 1979 they have grown to 2,500 employees .They have been into franchising business since past around 20 plus years. Their major emphasis was on choosing the right franchisees. Their brand looks for people who understand their business model and their vision. Personal involvement and enjoying the job was also key parameters they looked for. The franchisee aspirant must not only aim in reaping profits but should also enjoy serving customers and feel pleasure in the concept of greeting cards and gifts. He also stressed on the initial hand holding of franchisor to franchisee. According to his company policy 1-2 people stay back at the franchisee for a week to guide the franchisee in initial stages after the detailed extensive training is given by the franchisor to the franchisee.

Azoulay and Shane (2001), have showed that the firms are selected for survival on the basis of contracting efficiency in the franchising context. The study was conducted on the basis of data collected from 170 new franchise contracts and interviews of 16 founders of new business format franchise systems selected from several industries in U.S. They concluded that new franchise chains that adopt exclusive territories are more likely to survive over time than chains that do not. Successful and failed entrepreneurs possess different information about how to design contracts. Those whose 'contractual experiments' prove to be more consistent with economic theory are rewarded for their superior information with survival.

Porwal (2016), studied the viability of various franchising business models. The main objective of the study was to study the applicability of various franchise models. The research attempted to analyze the success and failure factors from franchisee point of view. The study also brings out the franchise buying guidelines for a layman who aspires to buy a franchise. The sample comprised of 55 different categories of franchisees like cartridge refilling, computer training institutions, car care, inter cyber cafes, etc. Both, master franchise and unit franchise models have been included in the survey. COCO models are not considered in the survey. Statistical tools such as descriptive statistics and Karl Pearson's coefficient of correlation are applied for the analysis.

Hanafiah and Senik (2002), carried out a research to identify antecedents that lead to success in the franchise business. In their study, 20 antecedents that lead to success in the franchise business have been identified. A total of seven 7 antecedents have been identified as important antecedents impacting the success of the franchise business. Among these include- a good image of the franchise business, the products identified in the market, the selection of franchisees, the existence of a strong trust between franchisees and franchisors, support and comprehensive training by the franchisor, a fair agreement between the franchisee and the franchisor and a continuous communication link between franchisors and franchisees. However, they simply do not consider the antecedents which influence the quality of the franchise relationship, but in general to determine success in the franchise business. Based on the 7 antecedents as mentioned above there has been a strong correlation with quality issues between franchisor-franchisee relationship that is the influence of exogenous antecedents.

Risnere (2001), discovered the strategic factors that determine the success or failure of American fast food franchises in Brazil and analyses the cultural role of the factors. The study is qualitative in nature with four franchisors being interviewed. The results indicated that there are some key factors relevant to enter the Brazilian market using franchise network. The factors are product, operations, store layout, training and marketing approach. Further, culture has an impact on each of these factors in deciding the success of franchising.

Moore (2003), says that a type of franchising known as 'Business Format Franchising' is successful since the franchisor prescribes the formula of operating the franchisee business. Manuals and instructions are issued to the franchisee; uniformity is built and prescribed in the contract itself. A sample of five different franchised units is evaluated to check the level of franchisor control and the franchisee's output and found that the quality of product, quality of service, time consumed in service and standardization of looks of store, whenever all these factors are focused in business format franchising are found to be a reason for success.

Windsperger (2006), argues that a franchise that works successfully is eventually going to be converted into a company owned unit. This means, if any franchise is successful and having a considerably good results in the market, the franchisor buys back that franchise to earn the total revenue rather than contented with the franchisee fees and royalty.

Emerson (2015), studied the impact of political statements made by the franchisor on the brand value of the company. The author considers four cases in USA with regards to food restaurant franchisors that were caught into the controversies as they had made certain statements in the media about political authorities, rituals or religion. Study showed that such a controversy has always harmed the brand name of the company. This has affected not only the franchisor's business but also the franchisee's operations. Loss of customers, drop in the sales transactions, bad name, distrust by the society are some of the effects that the franchise system may go through in the case of any political, religious or discrimination related controversies created by the franchisor or any executive related to the franchise system.

Mrabet (2005), calls Franchise as a magic formula which every businessman would like to have to achieve success in business. However, the theory is that, for success in franchising, the franchisor has to transfer initially the essential elements of such business to the franchisee. Further, there should exist co-operation, trust, loyalty and good faith among franchisor and franchisee to establish a fruitful relation for both. This process is not easy to

establish. In fact, both the parties may have different interests and this may cause conflicts. To solve this problem of conflicts, this study suggests that, a draft of contract should be carefully worded with all elements prescribed in it. Clarity with respect to all the responsibilities of both the parties is recommended to be included in the contract.

Welsh *et al.* (2011), investigated that success rates of franchisees makes franchise owners become entrepreneurs in comparison to an independent business. They assumed the existing independent business units to be of the same groupings as that of a franchise. Like a franchisor selling a proven and tested system, someone buying an existing independent business is also following the similar process of buying proven model. However, the research found that both the independent business as well as franchise entrepreneur are risk takers as determined by the success rates. However, they further claimed that the independent business owner is more motivated, self-reliant and therefore also more independent.

Ohlsson (2005), states that the success of franchise system depends to a great extent on the compliance of the business concept. Franchisor should restrict the franchisee in certain aspects; however, certain amount of freedom has to be allowed to the franchisee to manage his business. The study, discusses about the design a franchisor should frame within which his franchisees should operate. This study was based on literature review. The results state that franchisors strive to exercise a control over the functioning of franchisee through use of action control in the form of manuals and franchise contracts that restrict them as well as clarify the expected behaviors. Franchisors also tend to use personnel control during grant of franchise to a particular franchisee at the recruitment stage.

2.4 RESEARCH GAPS IDENTIFIED FROM THE REVIEW OF LITERATURE

The review of literature reveals that various empirical studies have been done and articles and research papers have been presented abroad on the topic of franchise business in foreign countries such as USA, Brazil, Sweden, South Africa and other developed countries. However, there is no full-fledged research that has been carried out on this topic in India and especially in Pune region.

India has witnessed a huge demographic transformation with consumption led growth that makes it an attractive destination for the franchise fraternity. The industry has an annual growth

rate of 30 percent with a market size of USD 7.2 billion. According to Indian Franchise Association the franchising industry is expected to quadruple from 2012 to 2017. It is also expected that it will contribute almost 4 percent of India's GDP in 2017 and will generate job opportunities to 11 million people in India. Worldwide there are over one million franchisees with McDonalds as one of the largest chain of franchisee having 30000 restaurants operating in more than 100 countries (Michael, 2003; Daszkowski, 2011). India has the huge market potential for business and having rich diversity in its market. Most business houses have preferred franchising type of arrangement to reach every individual customer. Despite such a huge potential in India there is dearth of literature available that explores the various conflicting issues, success & failure rate analysis, legal issues, challenging issues being faced etc. Besides, such an importance received from the corporate houses very few studies have been conducted in the Indian context covering above mentioned aspects of franchising business. Considering the literature reviewed, various research gaps that also help in identifying the research problems have been specified as under:

1. Most of the research studies related to franchising are conducted in the foreign countries like USA, Brazil, Sweden & South Africa and other developed nations. A negligible amount of research in the field of franchising has taken place in India. Moreover, in Pune region there are no such systematic studies done till date.
2. When it comes to studying relationships, lots of studies are found to be present in developed nations, but specifically franchising sector has not been touched for research in India. Generalization of any research is not valid in India as India has its own limitations and opportunities.
3. Though the research says franchise industry is flourishing, there are reports of conflicts and discontinuation of relationship between franchisor and franchisee. The one plausible reason for this can be the differences between the perception of franchisor and franchisee regarding variables affecting their relationship. Thus, arises a need to study if there exists any differences in the perspective of franchisor and franchisee.
4. Earlier studies have mostly focused on the franchise model of business, which is being setup by the franchisor. There are very few studies which have focused on the various factors that should be taken into consideration while taking a franchisee. This study

investigates these variables and identifies various challenging issues which are faced by the franchisees.

5. Literature review shows that there is no systematic study done with reference to success and failures happening in franchising business. A business if it is a grand success then less attention paid to learn the ways and efforts the business entity has made to get to the success, but on the other hand a business is a failure and not able to survive then an obvious attempt has to be made to understand the reasons for its failure and non-sustainability. The reasons may be numerous and the reasons can also be endless. The reasons may be interdependent on many factors which could be controlled or beyond the control of the business owner.

6. The relationship of franchisor and franchisee is very fragile and there is need to know which is the weak link because of which disruption happens in the relationship. Previous studies done so far does not through a complete light on relationship and various conflicting issues prevalent in franchising businesses specifically in Indian context. The present study addresses these gaps.

7. The available studies in the topic of franchise business mostly relate to the franchisors' perspective. However, the numbers of studies that reflect franchisees' point of view are less.

8. The studies that have been reviewed, present a qualitative picture of various aspects of franchising. However, a few researches are done using a quantitative approach.

9. Literature survey indicates that much less has been written on the Legal Compliance, rules and regulations guidelines for Franchisee Businesses. Separate bylaws and legal protection for interest of both franchisors and franchisees was found to be missing in the review of literature. More information data is required to understand and study this the franchising business model and give it a strong concrete support for its flawless functioning.

The research studies specifically based on Indian perspective of franchise regulations & various legal issues consider single and separate issues connected with regulations such as encroachment, liquidation, conflict etc. However, no study highlights collectively the problems faced by the franchisees due to nonexistence of specific franchise law in India and its impact on the franchisee satisfaction with franchise system of business.

10. Socio – economic studies in franchising reflect the impact on State or the locality. However, the benefits of franchise business to individuals and for socio economic development of the regions are not explored by any of the studies.

Present study aims to contribute towards filling most of these research gaps by addressing various importance issues related to the franchised business growth & sustenance with a special a special reference to Pune region, which is a first of its kind of study carried out in Pune region.

The survey of literature reveals that it is the need of the hour to undertake a systematic study of Franchising Business Viability and its sustainability in any particular market. It also throws light on the need of the hour that a rapidly growing semi metro city like Pune needs to be surveyed for its existing franchise owners and a research to be done to check their business status, health. The present study is aimed to fulfill this requirement.

2.5 CHAPTER SUMMARY

The chapter presents an extensive literature that has been surveyed and which relates to the various areas identified from the scope of franchising such as Growth, International franchising, Legal issues, Relationship & conflicting issues, various other challenging issues, Success & Failure analysis etc. The review of literature helps in locating the prominent research gaps and identifying the research problems, which will ultimately help in framing the research objectives.

CHAPTER – 3

RESEARCH METHODOLOGY

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CHAPTER - 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION: RESEARCH METHODOLOGY

Research is an exploration of discovering and looking for solutions to different problems through unprejudiced and methodical analysis. It is a quest for knowledge and information about matters. The information is collected from various sources and validated. The results of scientific research lead to change in the already going on propositions and theories. The objective of doing any research is to either find a new theory and validate it or reform an existing theory with the standard operating procedures.

A research work begins with an information need. It ends with an actionable report or presentation or both. This chapter covers an overview about the research methodology adopted for the purpose of the research work. Research methodology defines those procedure by which the research has been carried out and will lead to definite results including various steps from defining the problem, setting the research objectives and formulating research hypotheses. It also includes the detailed research design formulated for carrying out the study which further includes the sampling design, sampling method and the instrument used to collect the data, tabulation and codification of data. It underlines the techniques and tests that are used for testing hypotheses and finally informing about the organization of thesis into various chapters.

As said by Mr. Ray Crock of McDonald's -**"In the Business for yourself, but not by yourself."**

A franchised outlet may not be successful on account of various reasons related to the parameters related to the Franchisee or Franchisor even though the franchisor having an excellent business idea, suitable locations as well as supporting staff that is adequately trained. It has been prominent that franchise business activities might suffer a downward growth owing to its unsatisfied franchisees.

It's a known fact now that even though the Indian Franchise business industry is showing an all-round growth, it is worthwhile to understand any lapses/gaps those might exist, review the processes and systems and re-state business objectives in order to make franchising business a successful and enduring/longstanding one.

For the purpose of analyzing the research gap areas in details, the researcher has intended to carry out an extensive and deeper study on the growth, various issues and challenges in franchising business activities in Pune city and surrounding areas.

The feedback / responses of the franchisees and the franchisors in the 5 major sectors of franchising business was collected using appropriate questionnaires and personal interviews on the basis of which the various important and critical factors influencing the franchised business association between the franchisees and the franchisors was consolidated.

A perspective on Franchisee satisfaction provides an in-depth information on the state of the performance of franchise business in Pune region and also it will through light on the different trends those might affect the perspectives of the franchisees.

It is essential to apply appropriate sampling technique and adopt proper method so as to achieve the objectives laid down for the investigation especially when a study deals with human beings. The selection of method depends upon the problem selected and the kind of data necessary for its solution.

Thus, this chapter will mainly focus on the research techniques adopted and used for this study in order to test the research hypotheses and achieve the research objectives.

3.2 STATEMENT OF PROBLEM

Despite the fact that the franchise mode of retailing is gaining boom and spreading very fast in entire world, the prior researches state some facts which are opposing to the expansion rate. The fact that the franchise failure rates range between 15 to 30 percent is quite dreadful additionally, researches done previously indicated that franchisee failure rate is significant and going to increase (Holmberg & Morgan, 2003). So, for a business which is expanding at a good rate, gets rated equally for having failure rate, is a point to discuss and research. It becomes important to find out and examine factors which can become backbone of successful relationship. Thus, this is one of the main and most important point for which such a research is carried on. Main undertakings from the previous chapter are mentioned below:

- i. Indian franchising industry is not yet fully grown and is in the stage of a faster growth & expansion in coming years.
- ii. There is no franchise law existing in India & franchise system has to depend on various other necessary laws and regulations in order to have legal control on franchise business activities in India.

- iii. There is no systematic research done with respect to success & failures happening in the franchising business in India.
- iv. There exists conflict in franchising relationships which if not addressed properly can lead to getting in to undesirable situations for both franchisor as well as franchisee.
- v. Franchisors perceive that franchisees tend to free ride and can deteriorate the quality standards and hence they keep maintaining necessary checks and controls on the franchisees whereas Franchisees perceive that there is lack of support and undue power and control exercised by franchisor on the franchisees.
- vi. Franchisees and franchisors both need to understand that there is need of having mutual trust and satisfaction in the relationship, which goes missing in most of the cases. Both of them tend to blame each other for the absence of these critical factors.

3.3 RATIONALE OF THE STUDY

The franchising concept solely relies upon the healthy & cordial relationship between franchisor and franchisee, which, if not maintained well, leads to the end of mutual tie-up. Franchising is like an association of cooperation between partners who perform on very similar philosophies. The success of such form of business idea lies in economic cooperation between partners (Pawłowska, Mazurek-Czarnecka, & Brożek, 2014). Thus it becomes important to manage this mutual relationship so that the franchising industry does not succumb to voids in the relationship of both the partners in franchising systems.

The literature regarding various potential issues existing in the franchising business activities such as conflicting issues & legal issues, franchisor-franchisee relationships, success and failures rate analysis highlights that most of the studies is found to have been done mostly in foreign and developed countries. Various strategies are employed by the franchisors to establish their network worldwide and make franchisor- franchisee relationship fruitful and successful. As the importance of franchising is increasing in India over the years, it becomes evident to highlight the issues pivotal to the franchisor franchisee relationship and certain potential issues of conflicts in the Indian context. The need of the hour is to study the relationship between franchisor & franchisee and other potential issues involved in franchising business in order to assess the extent it affects the franchise system. The ability to foster a climate of healthy franchise relationship has been studied in this research so as to give out some implications to the franchise industry on how to have a healthy and long term relationship in this kind of business format. There is a need to understand in details about the success and failures happening in franchising business activities and its impact on the overall growth of franchising in India.

This independent analysis of the past, present and future of franchising in India will assist in a clearer understanding of the opportunities to develop the franchise business model.

The rationale to study Franchising and relevant issues in Pune and surrounding areas is that franchising is fast growing and has been witnessing more robust growth in the past decade. All the major and important sectors of franchising like- Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, and Education & Support Services have been showing an attractive growth in Pune city & surrounding areas. Hence, it becomes important to study the franchise-relationship and various other issues in franchising in Pune and surrounding areas. Therefore, the present research aims at investigating the franchisor-franchisee relationship, growth of franchising business, other potential issues including various conflicting issues, legal issues in the franchising industry in India with a special reference to Pune city & surrounding areas. It also aims at studying the success and failure rate analysis happening in the franchising business with a special reference to Pune city and surrounding areas.

3.4 SCOPE OF THE STUDY

The study has been chosen to be conducted in the Indian franchised sector.

Franchising industry in India has remained mostly untouched by researchers in almost all Aspects. There is a need of systematic research for this because it has been flourishing at a high pace in India and so are the potential issues like conflicting issues and legal issues between franchisors and franchisees. After reviewing literature, the scope of this research is defined within the various issues and factors on which the success of this industry lies. Thus, the research in this thesis revolves around the various potential issues like conflicting issues and legal issues, success & failure rate analysis and understanding the variables that are critical for the franchisor-franchisee relationship.

The researcher has selected Franchisors and Franchisees operating in Pune city and surrounding areas only for the purpose of collection of Primary data in view of finding out various potential issues, success & failure rate analysis and franchisor-franchisee relationships because of operational convenience and consideration of time and cost factors. The scope of the study is limited to Pune city & surrounding areas for studying the various potential issues and relationship between franchisor and franchisee because of robust growth happened in the city over the years and it is the mainstay of development in the state of Maharashtra & India. India needs growth in the economy and franchising is one of the key industries to attain the economic objectives of the state & country as a whole.

Hence this study of franchising in Pune city & surrounding areas is chosen for carrying out the research. This study will be conducted on the selected Franchisees and Franchisors existing in Pune region (Pune city and surrounding areas).

The scope of research pertains to the period of 10 years from April 2008 – March 2018.

3.5 IMPORTANCE OF THE STUDY

The systematic study in view of the present research work undertaken is proposed to be important and useful in many ways as follows:

- i. The research study undertaken will be important in understanding the growth of franchising business activities in Indian franchising industry with a special reference to Pune city and surrounding areas.
- ii. The study will bring out the various conflicting issues existing among various Franchisors and Franchisees in the Indian Franchising business.
- iii. The study will also be useful in understanding various legal aspects of franchising & legal issues prevalent in Indian franchising industry.
- iv. The study will also be useful for understanding the different ways adopted for the conflict resolution by the franchisors and franchisees.
- v. The research undertaken will prove important in understanding the Success and Failures happening in the Indian Franchising business and its possible reasons and various contributing factors responsible for such Successes and Failures.
- vi. The systematic study is also intended to ponder over the impact of prevalent conflicting issues as well as Success and Failure rate of the Indian Franchising business activity on the indicators of Indian economic growth.
- vii. Based on the research outcome the study will prove important in giving suggestions and recommendations to the various stake holders of franchising industry in India.

3.6 OBJECTIVES OF THE STUDY

In the light of the statement of problem and rationale of the study as explained, following objectives are framed in order to carry out the detailed study:

Objective 1: To study the nature, type and growth of the Franchising business in India with a special reference to Pune & surrounding areas.

In order to study this objective a detailed review has been done about all the 5 important sectors of franchising viz. Retail & Lifestyle, Food & Beverages, Healthcare & Beauty,

Education, Support services etc. with a special reference to franchised business activities in Pune & surrounding areas. The above mentioned objective has been studied by formulating & testing suitable null hypotheses as mentioned in hypothesis section of this chapter.

Objective 2: To Examine the Legal Environment of Franchising in India and abroad.

This objective is studied by understanding the legal environment of business and its significance in general, followed by, the various regulations applicable specifically to franchise business abroad and in India. It further highlights the legal formalities of franchising with respect to the agreement, disputes in franchising and forms of resolving the disputes. For the purpose of studying this objective, apart from secondary information, the researcher also used the primary data collected from the selected sample of 576 franchisees operating in Pune & surrounding areas. The above mentioned objective has been studied by formulating & testing suitable null hypotheses as mentioned in hypothesis section of this chapter.

Objective 3: To study various problems caused due to lack of specific franchising law in India.

This objective investigates the absence of specific franchising law in India & its repercussions on the franchising activities in India. This objective is studied by formulating and testing a suitable null hypothesis as mentioned in hypothesis section of this chapter.

Objective 4: To study the various conflicting issues existing between the Franchisors and Franchisees and to find out the possible reasons responsible for such conflicting situations.

Any given franchise system has prevailing conflicting issues between franchisor and franchisee. This objective is intended for a detailed investigation about various conflicting issues existing between franchisors & franchisees and study the possible reasons thereof.

This objective has been studied by formulating & testing suitable null hypotheses as mentioned in hypothesis section of this chapter.

Objective 5: To study different possible ways of conflict resolution adopted by both the parties involved in Franchising in order to re-establish continual smooth relationship between them.

This objective studies various possible ways of conflict resolution those are adopted by

franchisors and franchisees in order to re-establish a smooth and sustained mutual relationship. There is no specific hypothesis for this objective.

Objective 6: To study various Success stories & Failures happening in the Indian Franchising business activity.

Success & failures are part and parcel of any franchised business activity. This objective makes a detailed investigation about various success stories as well as various failures in franchised systems in India. For studying this objective, a suitable hypothesis is formulated as mentioned in hypothesis section of this chapter & tested accordingly.

Objective 7: To carry out a systematic Success & Failure rate analysis in order to find out various possible reasons and the contributing factors responsible for such Successes and Failures and accordingly establish a Cause - Effect relationship.

Literature review indicates that the research done so far doesn't give a detailed and systematic success and failure rate analysis specifically in Indian franchising business activities. This objective is intended to explore in detail about the systematic success and failure analysis in Indian franchising business. For studying this objective, a suitable hypothesis is formulated as mentioned in hypothesis section of this chapter and tested accordingly.

Objective 8: To investigate the impact of conflicting issues between the Franchisor and Franchisee as well as the impact of Successes and Failures happening in the Indian Franchising business on the various indicators of the Economic growth of India.

This objective intends to study the impact of various conflicting issues prevailing between franchisor and franchisees on various indicators of economic growth of India. It is a very important study in view of understanding the magnitude this impact makes on country's economy and growth and sustenance of franchised business in India. There is no specific hypothesis for this objective.

Objective 9: To provide remedies / suggestions/ recommendations for success and growth of Indian franchising business.

This objective intends to provide specific remedies, suggestions & suitable recommendations for future success & growth of franchising business activities in India. There is no specific hypothesis for this objective.

3.7 HYPOTHESES OF THE STUDY

In order to carry out a detailed study of the various objectives of the present research the following hypotheses were formulated.

Hypotheses Statements:

1. **Hypothesis No.1**

H0: There is a low development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations.

H1: There is a considerable development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations.

2. **Hypothesis No.2 :**

H0: There doesn't always exist conflicting issues between Franchisor & Franchisee.

H1: There always exists conflicting issues between Franchisor & Franchisee.

3. **Hypothesis No.3**

H0: There is no significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors.

H1: There is a significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors.

4. **Hypothesis No.4**

H0: Conflict resolution between Franchisor & Franchisee does not assume a significant importance for the success & growth of Indian franchising business.

H1: Conflict resolution between Franchisor & Franchisee assumes significant importance for the success & growth of Indian franchising business.

5. **Hypothesis No.5**

H0: There is no positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising.

H1: There is a positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising.

6. **Hypothesis No.6**

H0: Problems faced by franchisees due to the lack of specific franchise law in India does not have a significant impact on the satisfaction of franchisees.

H1: Problems faced by franchisees due to the lack of specific franchise law in India has a significant impact on the satisfaction of franchisees.

7. **Hypothesis No.7**

H0: There is no significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India.

H1: There is a significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India.

8. **Hypothesis No.8**

H0: Failure rate of the Franchisees in India is more as compared to the Success rate of the Franchisees.

H1: Failures rate of the Franchisees in India is less as compared to the Success rate of the Franchisees.

3.8 RESEARCH METHODOLOGY

The research methodology adopted in order to study & investigate the principle area of this research is mentioned as follows. For any research to be conducted the researcher needs to follow a sequential and structured plan of research. The objectives of the research can be studied efficiently only when a suitable and well planned research methodology is designed for the study.

Thus, this research work follows a sequence of methodology that comprises the selected objectives, various hypotheses, importance of the study, the sample design, the sampling technique, the period of study, the instrument development, the sources of data, data analysis methods, the various statistical tools used, the limitations of the study etc.

3.9 RESEARCH DESIGN

In order to gather the required information with respect to the research objectives, a Quantitative approach was used. The research design adopted for the current study was cross-sectional and causal i.e. primary data was collected at certain point of time not

for period of time and the study was conducted to find out cause and effect relationship between the independent and dependent variables under study. Survey method has been employed to gather the data from the respondents. An instrument has been developed in the form of a self- administered questionnaire which consisted of open and close-ended questions designed in accordance with the research objectives, with the intention to extract most relevant information from the respondents. The literature review has been conducted in the end of 2014. The questionnaires were developed for franchisees and franchisors operating in Pune region and administered to the respondents during the months March - September, 2015 for data collection.

The present research study is exploratory cum descriptive in nature.

For the purpose of study, first exploratory research is conducted to gain better understanding about the research area being studied. It helped in gaining fundamental information to assist in identifying the factors most relevant to the context being studied. Thereafter, descriptive research is used to test and answer the research hypotheses. This is carried out by a survey design and therefore consists of designing and administering the questionnaire, constructing the sampling strategy analysis the results.

3.10 DESIGN OF THE QUESTIONNAIRE

Questionnaire method of data collection was adopted for this study which is widely accepted and used. A well-structured questionnaire was designed and administered to the respondents. The responses were duly filled into the questionnaire by the concerned respondents. In the researcher's current scenario the owners/authorized person of the Franchisees as well as the Franchisors were requested to answer the questions and return the duly filled in questionnaires. The questionnaire consisted of a various questions intended to get the precise answers/responses for the purpose of the study/investigation. The respondents were expected to go through the questionnaires and understand the questions written and mention their reply/feedback in the space provided against each question in the questionnaire itself. The respondents were fully explained the details about the questionnaire and they were supposed to give the actual responses/answers to the questions asked in the questionnaire with their own knowledge and intelligence. In certain specific instances wherein the respondents were unable to fill in their responses/answers because of certain reasons like their busy work schedules, the researcher filled in the answers against the questions asked in the questionnaire based on the respondent's actual responses/feedback on the various questions those were asked to them.

3.11 PILOT STUDY

As a part of carrying out the pilot study, the “trial questionnaire” was administered to five franchised outlets in Pune City region and they were explained about the purpose of the research study. Even well known & established Franchisees from Cotton king & Monjinis Cake were met to discuss about the correctness of the Questionnaire and to incorporate their views for any corrections and suggestions. Trial interview was conducted with all the five franchisee owners/authorized persons and the questionnaire format was thus filled in duly. Further, the questionnaire format was discussed for its correctness as well as appropriateness. Even, a few personal questions were changed since they were observed to be directly attempting to ask the franchisee owners about their financial status. Thus, with all the experience gained while doing this exercise as well as the valuable suggestions, feedback and the opinion received during the pilot study, the trial questionnaires were thoroughly reviewed and properly edited. Further, the inconsistencies, irrelevancies and technical flaws were removed in order to make the questionnaire more meaningful, purposeful, more comprehensive and compact as well. A sample of the finalized separate questionnaires for both Franchisees and Franchisors are attached in Appendix - A and Appendix - B respectively.

3.12 DESIGN OF THE QUESTIONNAIRE/RESEARCH INSTRUMENT

This section deals with Design of the Questionnaire/Research Instrument as detailed below.

3.12.1 Research Instrument Development

The literature related to all these constructs was studied in depth and variables that affected these constructs were included in the scale. Two different sets of questionnaires were administered, one each for franchisees & franchisors.

The first i.e. Part-A of both the questionnaires included demographics of franchisors and franchisees listing demographic details such as gender, age, educational qualification, years of experience and other items like nature of business, location etc. Part-B of the questionnaires included the items related to the business details. Part-C, Part-D, Part-E, Part-F and Part-G of Franchisee’s Questionnaire and Part-C, Part-D, Part-E and Part-F of Franchisor’s Questionnaire covered the items relevant to growth, various issues pertaining to the operational issues, legal issues, conflicting issues, success and failure happening in franchising and other relevant issues in franchising. Separate set of

Questionnaires each for Franchisees (Appendix - A) & Franchisors (Appendix - B) are given in the Appendix section of this thesis.

All these questionnaire items were selected after the thorough review of existing literature. The scale for the above generated variables was developed from the review of existing relevant scales and after thorough discussions with research experts to check the face validity and content validity. Besides, some modifications were made to increase its understandability to the respondents. In addition self-developed item were also incorporated in the final instrument. Five-point Likert scale has been used in all the relevant items of the constructs intended with reference to the research objectives with ranks 5 (strongly agree) to 1 (strongly disagree). Franchisee questionnaire consists a total of 63 items/questions and Franchisor questionnaire includes 47 items/questions to understand and measure the response from the respondents.

3.12.2 Validation and Reliability of the Research Instrument (Questionnaires)

The present study has used two different questionnaires as its research instrument, one each for the franchisee and the franchisor for the purpose of collecting the primary data required for the detailed analyses. Validity of a research instrument refers to the extent to which the data collection instrument is relevant, appropriate and suitable. The reliability on the other hand refers to the stability of the measures/ scale used to collect the data. It ensures the internal consistency of the research instrument.

Reliability of the research instruments/questionnaires which are employed for the present study is confirmed by getting the Chronbach's Alpha value. Cronbach's α (alpha) is a statistical tool that measures internal consistency among individual items in a scale. Cronbach alpha values of 0.700 or higher are considered to be satisfactory and acceptable for providing statistical support that a single construct is being measured (Hair et al.,1995; Nunnally, 1978).

For the primary data collected using Questionnaire-I for Franchisees, the Chronbach's Alpha value obtained was 0.826 and that of the Questionnaire-II for Franchisors was 0.857. Both of these research instruments are found to be reliable since the values of Chronbach's Alpha obtained were greater than 0.700 which is assumed to be an acceptable value of reliability of the research instrument based on Chronbach's Alpha value.

Face validity was ensured by asking opinions and showing questionnaire before administering to various experts including franchisors, franchisees and academicians after developing it from literature comprehensively. Content validity was also assured as the

questionnaire was framed using items from standardized questionnaires available in the literature.

3.13 UTILIZATION OF SAMPLING TECHNIQUE FOR DATA COLLECTION

For the purpose of the research study, following sampling technique has been applied for the data collection from franchisees and franchisors in Pune region viz. Pune city & surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas.

3.13.1 Stratified Random Sampling (Probability Sampling)

It is one of the Probability sampling methods that include division of the population into different groups called strata where each group has some homogeneous characteristics and these groups are randomly pooled for study.

The strata chosen for the study are:

1. Retail & Lifestyle
2. Food & Beverages
3. Healthcare & Beauty
4. Education
5. Support Services.

3.14 AREA OF STUDY

The study has been conducted in Pune region that covers n Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas of Pune region. The areas having operational franchisees were included in the study.

3.15 TARGET POPULATION AND STUDY UNITS

For the purpose of the study, the target population of the study included the franchising enterprises (both product distribution and business format franchises) operating in Pune city and surrounding areas. The franchise outlet owners (franchisees) and brand owners (franchisors) were approached for data collection. These two were addressed separately with two distinct questionnaires.

3.16 SELECTION OF SAMPLE

After the questionnaires got finalized, the researcher started contacting the unit franchisees which are operational in the specified area either by telephone or E-mails. A tentative mapping of the franchised business in the target area was done following which their current operational franchised outlets were determined. Also the travelling route plan was suitably decided for optimum utilization of time in Data collection activity while avoiding unnecessary wastage of time incurred in travelling. A comprehensive list of operational franchisees and franchisors with their current addresses, contact numbers and E-mails was prepared with the help of information collected from the local office of the FranchiseIndia, relevant websites and magazines and the same was checked with the route plan that was executed duly at the time of actual data collection. Subsequently, the researcher started establishing contacts with the respondents either Tele-calling or sending E-mails as was suitable for the appointments while properly explaining the purpose/objectives of the present study and then the questionnaires were administered to them accordingly. Since, in certain cases there being an inherent fear and hesitation on the part of Franchisee owners/authorized persons to share their information, especially regarding their issues and problems with their Franchisors, the researcher was often required to visit the franchisees personally and assure that all the information that was being sought from them would be kept strictly confidential and would be utilized exclusively and safely for the research study only. Apart from this, it was also suggested to the respondents that they might contact the researcher to seek any clarification or get their doubts cleared about the contents of the questionnaires in case they wish to do so.

3.17 CHARACTERISTICS OF THE SAMPLE SURVEY

The sample survey bears the following characteristics:

1. Different category of franchisees & franchisors belonging to 5 major sectors like - Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education & Support Services were targeted.
2. The nature of firms selected for the survey included the unit franchisees as well as their franchisors. Company Owned Company Operated Units (COCO) have not been covered in this survey.
3. Combined Region of Pune City and PCMC (Pimpri Chinchwad Municipal Corporation) areas was only considered for the survey.

3.18 SAMPLE SIZE

Sample Size Calculation:

The sample size was calculated as mentioned below:

The overall population of franchisees in Pune city and surrounding areas was 5454 and franchisors whose franchises were operating in the state were 724. In context to the above criterion, a sample size of 10.0% (Minimum) for the study of the Franchisees is finalized which worked out as **576 Franchisees** is finalized.

Further a sample size of 15.0 % (Minimum) for the study of Franchisors is finalized which worked out as **115 Franchisors.**

3.19 SAMPLING DESIGN

Given some issues in franchising industry as research focus, the sample for this research study is drawn from the franchisees and franchisors operating in Pune city & surrounding areas.

Sampling Unit:

The sample for this research study is drawn from franchisees and franchisors operating in Pune city & surrounding areas. A comprehensive list of franchisees and franchisors was prepared while taking help from local office of FranchiseIndia, Franchise Association Of India and also the information was collected from the websites such as www.franchiseindia.com, www.franchiseindia.net and www.franchisebusiness.in and magazines such as The Franchising World etc.

Franchisor:

Franchisor in the present research is the person who is in contact with the franchisee and dealing with him on day to day basis. This may include owner of the company, personnel from the top management or the zonal franchisor who is dealing with the franchisees in his/her area.

Franchisee:

Franchisee in the present research is the person who is working with franchisee unit and dealing with franchisor on day to day basis, tackling issues related to interaction with franchisor. It is also taken care that minimum experience of franchisee should have been at least one year for pertinent information.

3.19.1 Sample Design for Franchisees

Universe:

For the purpose of present empirical study, the entire franchisees present in Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas has been considered as universe. It is reported as of 2018 to be 5454 operative franchisees present in Pune city & surrounding areas.

Sampling Technique:

Stratified Random Sampling (Probability Sampling) is used for this study before proceeding with making calls and taking appointments from the franchisees.

Sample Size:

By way of a survey, 600 franchisees/units have been identified in five principle and important sectors of franchised business. These franchisee units were contacted across Pune city & surrounding areas; out of which 13 units refused to provide the data & for other 11 franchisees units the collected data was inadequate/ incomplete in terms of its usefulness. Hence a final sample of 576 franchise units was considered for data analyses. As per research advisors, a sample of 576 franchisees is chosen for the present study which is an adequate sample. The distribution of the selected sample for Franchisees is shown in the Table 3.1 and Table 3.2 as given below:

Table 3.1: Sub-sector wise Selection of Sample Size for Franchisees

Sr.No.	Franchise Subsector	No. of Operative Franchisees in Pune & Surrounding Areas (Population of Franchisees)	Sample Size Selected for Franchisees	% of Operative Franchises
1	Retail and Lifestyle	1172	119 out of 1172	10.15%
2	Food and Beverages	1502	161 out of 1502	10.72%
3	Healthcare and Beauty	792	81 out of 792	10.23%
4	Education	515	52 out of 515	10.10%
5	Support Services	1473	163 out of 1473	11.07%
	Total	5454	576 out of 5454	10.56%

Source: Primary Data & Secondary Data

Table 3.2: Sample Size Distribution for Selected Franchisees

Sr.No	Selected Franchisee Sector	Number of Franchisee Units selected	Out of Total No.of Franchisees	% of Total Franchisees units Selected
1	Retail & Lifestyle	119	576	20.66%
2	Food & Beverages	161	576	27.95%
3	Healthcare & Beauty	81	576	14.06%
4	Education	52	576	9.03%
5	Support Services	163	576	28.30%
	Total	576		100.00%

Source: Primary Data

3.19.2 Sample Design for Franchisors

Universe:

For the purpose of present empirical study, the entire operative franchised brands present in Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas has been considered as universe. It is reported as of 2018 to be 724 operative franchised brands present in Pune city & surrounding areas.

Sampling Technique:

Stratified Random Sampling (Probability Sampling) is used for this study before proceeding with making calls and taking appointments from other franchisors.

Sample Size:

By way of a survey, 140 franchised brands were identified in five selected industries. Some of these franchised brands (franchisors) were contacted by personal visit wherever possible, and some were contacted by way of either telephone or E-mail. Out of these 18 franchisors refused to provide the data & for another 7 franchisors the collected data was inadequate/incomplete in terms of its usefulness. Hence a final sample of 115 franchisors was considered for data analyses. As per research advisors, a sample of 115 franchisors is chosen for the present study which is an adequate sample. The distribution of the selected sample for the Franchisors is shown in Table 3.3 and Table 3.4 as given below:

Table 3.3: Sub-sector wise Selection of Sample Size for Franchisor Brands

Sr.No.	Franchise Subsector	Total No. of Operative Franchisor Brands in Pune & Surrounding Areas (Population of Franchisor Brands)	Sample Size Selected for Franchisors	% of Operative Brands in Pune & Surrounding Areas.
1	Retail and Lifestyle	248	18 out of 248	7.26%
2	Food and Beverages	164	30 out of 164	18.29%
3	Healthcare and Beauty	109	20 out of 109	18.34%
4	Education	89	21 out of 89	23.60%
5	Support Services	114	26 out of 114	22.80%
	Total	724	115 out of 724	15.88%

Source: Primary Data & Secondary Data

Table 3.4: Sample Size Distribution for Selected Franchisors

Sr.No	Selected Franchise Sector	Number of Franchisors selected	Out of Total No.of Franchisors	% of Total Franchisors Selected
1	Retail & Lifestyle	18	115	15.65%
2	Food & Beverages	30	115	26.09%
3	Healthcare & Beauty	20	115	17.39%
4	Education	21	115	18.26%
5	Support Services	26	115	22.61%
	Total	115		100.00%

Source: Primary Data

3.20 COLLECTION OF DATA

The respondents chosen were majorly from five sectors of Indian economy namely – Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education, Support Services etc. The major concentration of all these franchised business establishments are in Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas as far as Pune region is concerned. Thus, the sample included in the

study is drawn from these areas. Hence franchisees and franchisors from these areas were contacted and requested to fill questionnaire.

Using the list of franchisees and franchisors prepared earlier with the help of information collected from the local office of the FranchiseIndia, relevant websites and magazines, franchisees were contacted telephonically and appointments were taken. References were asked from the respondents to increase response rate. Because of the personal visits by the researcher, response rate of getting questionnaires filled was almost 90 per cent and above. All questionnaires were filled in presence of researcher and a detailed interview with respondent was done.

Meeting franchisors was more challenging task. Even after meeting the franchisors, they were reluctant to respond. The franchisors were also either the owners of the companies or the zonal or business heads who dealt directly with franchisees. The names of franchisors are kept anonymous due to ethical reasons.

3.20.1 Primary Data Collection

The researcher has collected the necessary Primary data appropriately in accordance with the needs of his research work. For the present research, the primary data has been collected from various franchisee outlets as well as franchisors which all are operational in Pune region. Data for the study was collected with the help of well-designed self-administered questionnaires (Appendix-I and Appendix-II) separately from franchisees and franchisors operating in Pune region. The questionnaires were prepared in English language and were addressed to the respondents. The researcher has adequately spent time with the respondents and then only the respondents went on to actually fill actually fill up the questionnaire administered to them. The respondents provided valid information in response to the questions asked in the questionnaire which was required for the data analysis part of the research study. The questionnaires were personally administrated to the franchisees, while as from franchisors the questionnaires were collected partly by meeting franchisors personally and partly by means of mail survey. Assistance was provided in case the respondent sought any clarification from researcher.

Following methodology has been adopted to collect the Primary data.

a. Interviews

Prior to finalizing the structured questionnaire, certain planned interviews have been taken with the franchisees, master franchisees and franchisors in Pune City & Surrounding

areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas and the officials from Indian Franchise Association and Franchise India Organization.

b. Survey

In order to locate the sample size of selected Franchise Industries in Pune City & Surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas, the researcher has conducted a survey by personally visiting the franchise units and preparing a list of number of franchised units available in above mentioned areas of Pune region as the ready registered list was not available at municipalities or with any other reliable sources.

c. Questionnaire

A well-structured questionnaire was constructed to collect data from the franchisees. It was validated by experts, tested with pilot studies, modified and then circulated among the selected franchise units in Pune city & surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas for the purpose of data collection.

Data collected through the questionnaire from franchisees has been used for studying the research objectives accordingly.

3.20.2 Secondary Data Collection

The researcher has collected the necessary Secondary data in accordance with his research needs. Other types of written information was also obtained by the researcher through sources such as Franchisee meets, Franchisee Business Exhibitions, Conferences held by Franchisee association of India with a purpose to understand deeply about the important concepts and franchised business activities as a whole. The list of relevant secondary data sources used by the researcher is as given below:

- i. Research Journals
- ii. Published Research Papers
- iii. Reference books
- iv. Magazines
- v. Information Brochures

3.20.3 Data Examination

Once the data collection was done, the data was thoroughly examined to check for the missing responses, outliers and incomplete filled questionnaires. It was mainly done in order to go for further statistical analysis, to test the hypothesis and to achieve the research

objectives. Certain statistical tests were also performed to check for the reliability and validity concerns.

3.20.4 Data Normality

The perceptions and the opinions of the respondents can never be same and there are more chances of biasness. As a result of which the data can never be perfectly normal. So it has been assumed that data should lie within a certain normal range. The normality of the data can be evaluated by means of graphical method such as normality plots and histograms.

3.21 STATISTICAL SOFTWARE AND ANALYSIS TOOLS / TECHNIQUES USED

Once the data collection was done, data collected through the survey was analyzed by means of certain statistical tools and techniques to draw the valid inferences. MS Excel software was used for data analysis in order to draw valid, reliable and meaningful results so as to accomplish the objectives of the study.

The various statistical tests/tools utilized performed and found appropriate for the study are as mentioned below:

- i. Frequencies and Descriptive Statistical Analysis – Mean, Standard Deviation, Variance
- ii. Pie Chart and Bar Charts
- iii. t-Test
- iv. Regression Analysis
- v. Factor Analysis

3.22 ANALYSIS OF DATA

1. The field research surveys and the personal interviews were adopted for obtaining the responses and gathering the necessary information from the respondents.
2. The collected data was appropriately tabulated and presented graphically with the graphs as well as charts.
3. Descriptive Data was tabulated and was analyzed further for obtaining the results and findings.
4. Each answer against the questions mentioned in the Questionnaire was tabulated with regards to the Likert Scale used and the descriptive data analysis like mean and median was done accordingly.

5. Pie charts as well as Bar graphs were generated to observe the behavior of the collected data.

6. Various hypotheses in the study were tested using statistical tools and techniques like Student's t-Test, Regression Analysis and Factor Analysis etc..

3.23 CHAPTER SCHEME

The entire study is organized in the following manner. The study is presented in five chapters as mentioned below.

3.23.1 Chapter 1: Introduction

This chapter provides introduction to the study and a theoretical background as well as the conceptual framework of franchising business. It further goes on to discuss the history and classifications of franchising, advantages and disadvantages for the parties involved in the franchising business, the relationship between the franchising parties, working of the total franchise system as well as the various steps which are involved in franchising business process. The chapter also highlights the functioning and the state of the franchising business globally, in India as well as in Pune region. This chapter further outlines the present trend of franchising and the issues in franchising relationships in various countries especially in those prevalent in India.

3.23.2 Chapter 2: Review of Literature

This chapter provides Literature Review of the existing available literature related to franchising. The reviewed literature was appropriately presented as per the focused areas of research study. Further, it has also identified the research gaps existing in the franchising business.

3.23.3 Chapter 3: Research Methodology

This chapter gives an elaborated view on the Research Methodology adopted for the purpose of research work undertaken. An objective oriented Research Methodology highlights various hypotheses incorporated in the study and the different statistical tools and techniques utilized for the data analysis part of the study. It has described the research methodology including the research design, construction of questionnaire, the survey method and statistical techniques used to analyze the data. Further, it has also stated the significance as well as the limitations of the study.

3.23.4 Chapter 4: Data Analysis and Interpretations

This chapter includes a detailed analysis of data collected through various sources of data collection and interpretation of the results with respect various objectives of the present

study. It covers the relevant hypotheses which are tested using the appropriate statistical tools and techniques. This chapter forms the basis of drawing findings & conclusions of the research & further enables the researcher to put forth valuable suggestions and recommendations.

3.23.5 Chapter 5: Findings, Conclusions, Suggestions and Recommendations

This chapter is a final chapter which gives the findings and conclusions in accordance with the various research objectives selected for the study. Further, it also puts forth certain suggestions and recommendations to various stakeholders of the franchise business system. It further gives a mentioning of the scope for further research existing in this particular area of research.

3.24 SIGNIFICANCE OF THE STUDY

Today, Pune and surrounding areas is considered as one of the most progressive and growing cities in India. It is believed that Pune with its robust growth in all the important sectors is at a take off stage for the next development phase. Government of India & so also Government of Maharashtra have been saying that it is their vision now to aim for achieving the standards of developed nations in the world and for this, a sustainable business growth is the only option that needs to be fully exploited.

Franchising business is more popular in other developed countries in comparison with India and hence this seems to have accelerated the economic development of these countries to a certain extent. With the advent of Liberalization, Privatization and Globalization, India has opened up its avenues for many foreign companies and brands to enter the country for establishing their business activities. Since franchising is one of the most preferred options for such foreign brands to enter the Indian market scene, definitely there is a need to give it a proper and due attention in India.

Moreover, Pune city has become one of the fastest developed metros in India offering huge franchising business opportunities for the entrepreneurs. Also, there has been a rise in the awareness about franchising among the eligible business society in India which has assumed the paramount importance. At present franchising is an upcoming sector in Pune and surrounding areas. Thus, it is needed that this industry and its future potentials should be explored with due care. A more suitable platform needs to be created for this emerging business sector in Pune region. The existing franchising business & the prevalent socio-political environment needs to be studied in much details in order to have checks and

controls wherever needed so that if the things doesn't move in a desired direction, they can be addressed during the initial stage of franchising.

The present study throws certain amount of light on all the issues relevant to franchising business which may prove to be important for flourishing of franchise business and the acceleration of socio-economic development of Pune region. Further, it can also influence the Indian government to introduce certain important schemes to provide assistance to the individuals specifically the "Youth population" of Pune region having entrepreneurial inclination and mindset to take up franchise route of businesses.

It has also been critically observed that there is a lack of a comprehensive law related exclusively to franchising in India. USA, Brazil, China, France, Indonesia, Italy, Japan, Malaysia, Mexico, Russia, South Korea, Spain and Venezuela have their own specific and defined regulatory framework in the field of franchising business. The present study may also prove to be of a great help to the Government agencies in framing appropriate policies and regulations relevant to the franchise business activities in the state of Maharashtra as well as India.

Thus, this research study in a way may prove as a pioneering work in franchising business activities in Pune region. It may assume the role of a light bearing torch for the other researchers in the Pune region.

3.25 LIMITATIONS OF THE STUDY

The following are the limitations of this research study:

The researcher has tried to cover five segment of the Franchise business which is prevalent in the demography considered for the research. Although 100% coverage is not possible due to limitations of time, funding, scope and other obligations, full attempt has been done to give justice to the various franchisee outlets as well as the franchisors.

Mentioned below are the brief limitations with respect to the research carried out under this Title of the work.

1. Due to limitations of the time and due to the wide spread of the geographical area and demographic spread of the Pune region, the researcher has limited the scope of Franchisee selection to Pune City and surrounding areas including areas covering PMC and PCMC (Pune Municipal Corporation and Pimpri-Chinchwad Municipal Corporation). Total Area of approx. Length wise approx.40 Km and breadth wise 25 Km (approx.1000 Sq. Km) area has been covered in the study.

2. Only franchised business models have been studied; there is scope for carrying out further study with respect to Company Owned Company Operated Models (COCO) too.
3. The methodology used for the collection of data is by using structured Questionnaire and accordingly further data analysis is done appropriately. The responses given by the franchisee owners and the franchisors are subject to the respondent's level of understanding, knowledge, educational status and the other environmental factor in which the survey was conducted for collecting the necessary relevant data for the study.

3.26 CHAPTER SUMMARY

Franchise business format is booming in India and this is the reason that it is gaining attraction of the researchers. Indian franchise sector is growing and seeing a lot of success. This research is an exploratory cum descriptive research. Two sets of questionnaire have been used to ask questions from respondents. The respondents were franchisees, franchisors from Indian franchised industry. There were 576 franchisees and 115 franchisors that were contacted using stratified random sampling method. Sampling area for the research included Pune city and surrounding areas including PCMC (Pimpri-Chinchwad Municipal Corporation) areas in Maharashtra state. Pilot study was conducted to validate the questionnaires. After performing reliability and validity analysis of the items in the questionnaires, reliable and valid items were retained in the questionnaires. The various tools used in this research are mean, standard deviation, variance, bar chart, pie chart, Student's t-test, regression analysis, factor analysis etc. The thesis has been divided into five chapters.

Thus, the chapter focuses on the research methodology used in the research. Exploratory cum Descriptive research is used to gain fundamental information to assist the researcher in identifying factors most important to the context being studied. Using the designed questionnaires and utilizing MS Excel software, the growth of franchising, conflicting issues, legal issues, success and failure rate analysis and demographic variables are studied in details with reference to franchisees and franchisors in Pune city and surrounding areas.

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATIONS

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CHAPTER – 4

DATA ANALYSIS AND INTERPRETATIONS

4.1 INTRODUCTION: DATA ANALYSIS AND INTERPRETATION

The specific purpose of this research is to study & analyze various issues in franchising in India with a special reference to franchising activities in Pune region i.e. in Pune city & surrounding areas. Data analysis involves organizing the data in a particular manner; interpretation of data is a method for deriving meaningful inferences and conclusions from the data analyzed. Analysis of data is incomplete without a proper interpretation which has been done in the following pages. Researcher can make suggestions and recommendations with the help of analysis and interpretation of data which has a practical value and also forms an essential part of a research report. The data has been collected from both franchisors and, franchisees.

This chapter deals with the analysis of data collected through primary and secondary sources (as described in section). It also involves analytical and reasoning to examine the various components of the data collected. The statistical tools applied in the data study were Bar Chart, Pi-Chart, Likert Scale, Mean, Standard deviation, Variance, t-Test, Factor Analysis & Regressions analysis.

As described in section (3.22.1), primary data was collected from 576 Franchisees using a “Franchisee Questionnaire” (described in Appendix A Further, the data was collected from 115 Franchisors using “Franchisor Questionnaire” (described in Appendix B) for the purpose of research under study. A relevant secondary data was also collected in the context of study.

4.2 RELIABILITY OF INSTRUMENT (SURVEY)

As suggested by Churchill (1979), Cronbach’s alpha is the first measure to assess the quality of a scale instrument. The reliability calculated for franchisor and franchisee questionnaire is presented in the following Table 4.1 & Table 4.2 respectively.

Table 4.1: Reliability for Franchisor Questionnaire

Reliability Statistics	
Cronbach's Alpha	No. of Items
0.854	47

Source: Primary Data

Table 4.2: Reliability for Franchisee Questionnaire

Reliability Statistics	
Cronbach's Alpha	No of Items
0.846	63

Source: Primary Data

The alpha value 0.854 and 0.846 indicates the scale items captured were the measures of reliability.

Data was collected from two samples Franchisees and Franchisors, who were asked to state their opinion on various parameters on Likert scale. The result of all the parameters under different franchising categories like Franchising growth, Conflicting issues, Success and Failure Analysis and Legal Issues are covered in the rest of this chapter.

This chapter incorporates certain research tools used for the purpose of the study. It highlights the various important variables studied and the influencing factors. It states the list of hypotheses that were tested for the purpose of the research. It also includes the frequency distribution tables and calculation of mean and standard deviation. It also includes the results of statistical analysis like Mean, Standard Deviation, Variance, t-Test, Factor Analysis and Regression analysis of the research work.

4.3 INTRODUCTION OF PUNE REGION VIZ. PUNE CITY AND SURROUNDING AREAS

Pune, located 118 km from Mumbai, is situated 1,837 feet above sea level on the Deccan plateau, at the convergence of two rivers Mula and Mutha. Once the center of power of the Maratha Empire, established by Shivaji Maharaj, this city has now come to be known as the cultural capital of Maharashtra. It epitomizes Marathi culture, and places emphasis on education, arts and crafts, music, and theatre. Pune culture reflects a blend of tradition with modernity. This city has emerged as a major educational hub in recent decades, with nearly 25% of the total international students in the country studying in Pune. Due to the presence of several well-known educational institutions in the city, Pune has been nicknamed ‘Oxford of the East’. It is known for its manufacturing and automobile industries, as well as for scientific research institutes, information technology (IT), education, management and training, which attracts students, and professionals from India, South East Asia, the Middle East and Africa. Several colleges in Pune have student-exchange programs with colleges in Europe. It is also home to some of the finest institutions like the National Defense Academy at Khadakwasla, the elite training school for the armed forces as well as the Armed Forces Medical College, Film and Television Institute of India and the Symbiosis Educational Society as well as the University of Pune (now renamed Savitribai Phule Pune University). It serves as the headquarters of the Southern Command of the Indian Army.

A few decades ago, the city was hailed as a pensioner’s paradise; now the scenario has undergone a complete makeover. Pune is one of the fastest growing cities in the Asia-Pacific region. Industrial development started in the 1950s and ’60s in Hadapsar, Bhosari, Pimpri and Parvati. Telco (now Tata Motors) started operations in 1961, which gave a huge boost to the automobile sector. In 1990, Pune began to attract foreign capital, particularly in the information technology and engineering industries. By 2001, the six-lane Mumbai-Pune expressway work was completed and eventually IT Parks were established in Aundh, Hinjewadi and Kharadi. The Mumbai-Pune Expressway is India’s first six-lane high-speed expressway, and it was operational from 2002. This expressway has reduced travel time between Pune and Mumbai to almost 2.5 hours. A ring road is being planned for the convenience of heavy traffic. On the express highway only four wheelers are allowed, thus only private cars, buses and taxis can travel on this route.

Marathi is the official and most widely spoken language, while English and Hindi are understood by a significant part of the population. Since Pune is a major industrial metropolis,

it has attracted migrants from all parts of India to come and settle here. Thousands of students and employment seekers come to the city for better opportunity and to settle here. Pune is a place that has always been changing and yet somehow maintains a sense of diversity, versatility and secularity.

The glimpses of Pune city & surrounding areas are shown in the Figure 4.1 as give below.

Figure 4.1: Glimpses of Pune City & Surrounding Areas



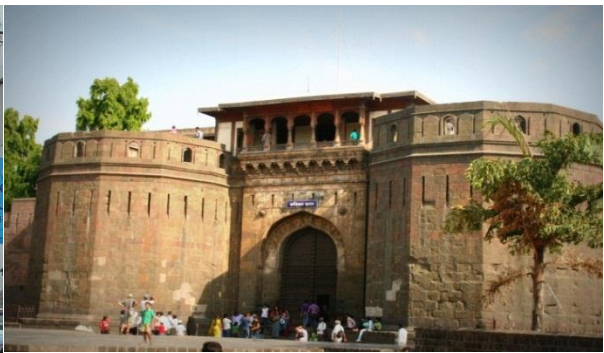
Peths of Pune City (Old City)



Pune Railway Station



Busy Market Streets



Shaniwarwada



Savitribai Phule Pune University



IT Hub - Hinjewadi



Dagdusheth Ganapati Mandir



Eon IT Park Kharadi



National Chemical Laboratory (NCL), Pashan



National Defense Academy (NDA), Khadakwasla

4.4 ECONOMY OF PUNE REGION

With an estimated nominal GDP of Rs. 3,31,478 crores for year 2019-20, Pune District is the third largest contributor to the economy of Maharashtra, after Mumbai and Thane. Pune has the fifth largest metropolitan economy and the sixth highest per capita income in the country. As per the Directorate of Economics and Statistics (Government of Maharashtra), the GDP per capita of Pune District in 2019-20 is Rs. 3,16,848. The key sectors of the local economy are education, manufacturing and information technology (IT). Pune has historically been known as a center for higher education and has been referred to as the educational capital of India. In 2016, it was reported that nearly 5,00,000 students from across India and abroad study in Pune at nine universities and more than a hundred educational institutes. Pune is a major manufacturing and industrial hub. It has established industries in the fields of automobile, electronics & hardware, aerospace pharmaceuticals, locomotives etc. Industry is mainly located in PCMC Administered areas, Chakan, Indapur, and Ranjangaon areas of the metropolitan region. The region serves as headquarters to Kirloskar Group, Bajaj Auto, Serum Institute of India, Tata Blue Scope Steel, Bharat Forge, Kalyani Group, Tata Steel Processing and Distribution etc. Public sector undertakings such as Hindustan Antibiotics, Maharashtra State Agri and Rural Tourism Co-

operative Federation Limited, Pune Mahanagar Parivahan Mahamandal Limited are based in the city. Manufacturing plant located in Pune. In 2014-15, the manufacturing sector provided employment to over 5,00,000 people.

The Rajiv Gandhi InfoTech Park in Hinjewadi is a 60,000 crore (US\$8.9 billion) project by the Maharashtra Industrial Development Corporation (MIDC). The IT Park encompasses an area of about 2,800 acres (11 km²) and is home to over 800 IT companies of all sizes. Besides Hinjewadi, IT companies are also located at Magarpatta, Kharadi and several other parts of the city. As of 2017, the IT sector employs more than 3,00,000 people. Pune has also emerged as a new hub for tech startups in India. NASSCOM, in association with MIDC, has started a co-working space for city based startups under its 10,000 startups initiative at Kharadi MIDC. Pune Food Cluster development project is an initiative funded by the World Bank. It is being implemented with the help of Small Industries Development Bank of India, Cluster Craft to facilitate the development of fruits and vegetable processing industries in and around Pune City.

4.5 GROWTH STATUS OF FRANCHISING BUSINESS IN PUNE CITY AND SURROUNDING AREAS

(Based on the field survey and the Secondary data collected about the entire population of franchisees in Pune City and Surrounding areas)

The Sub-sector wise distribution of Franchisees in Pune city and surrounding areas is shown in the Table 4.3, Figure 4.2 and Figure 4.3 as given below.

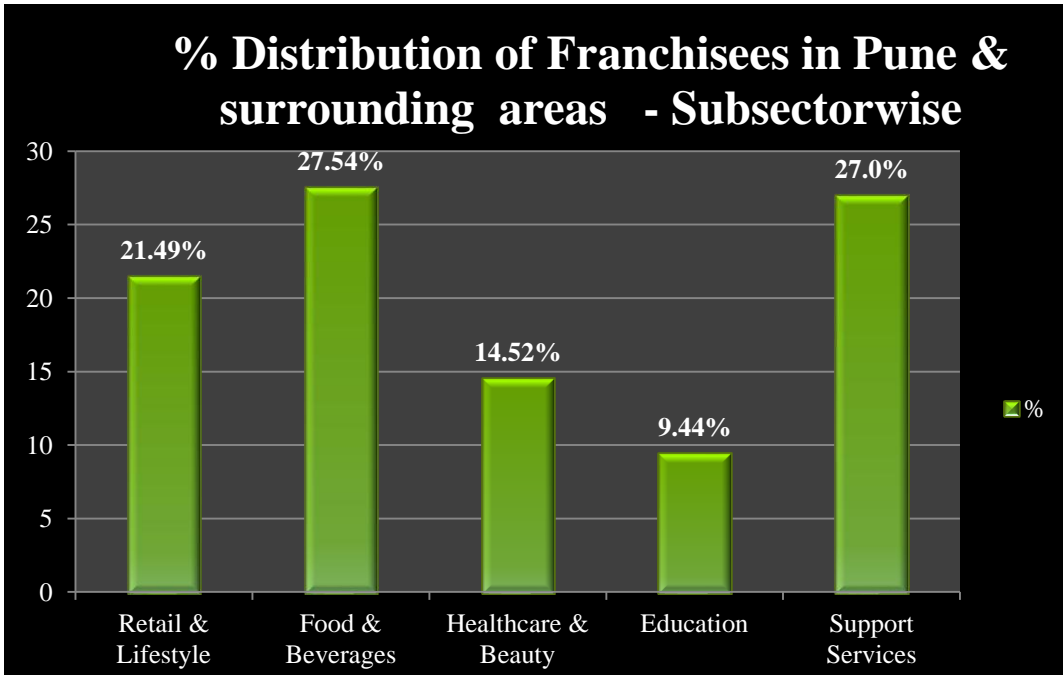
Table 4.3: Distribution of Franchisees in Pune (Sub-sector wise):

Sr.No.	Franchisees Sub Sector	No.of Franchisees	%
1	Retail & Lifestyle	1172	21.49
2	Food & Beverages	1502	27.54
3	Healthcare & Beauty	792	14.52
4	Education	515	9.44
5	Support Services	1473	27
	Total	5454	100

Source: Secondary Data

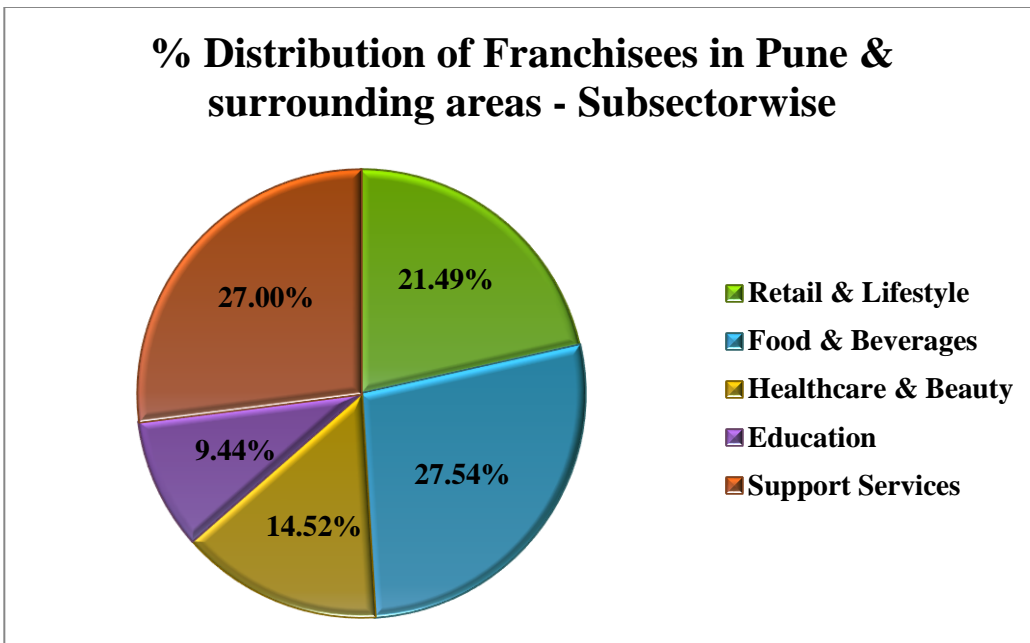
**% Distribution of Franchisees in Pune & Surrounding areas –
Sub-sector wise**

**Figure 4.2: % Distribution of Franchisees in Pune & Surrounding areas –
Sub-sector wise (Bar Chart)**



Source: Secondary Data

**Figure 4.3: % Distribution of Franchisees in Pune & Surrounding areas –
Sub-sector wise (Pie Chart)**



Source: Secondary Data

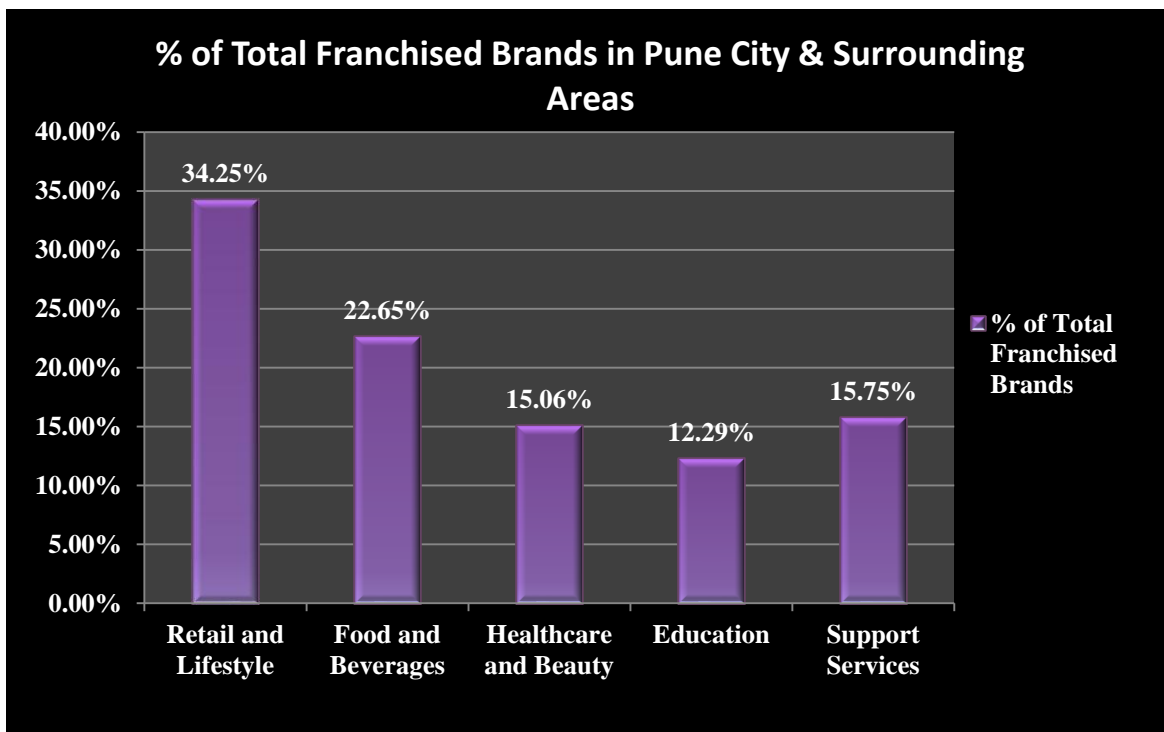
The Sub-sector wise distribution of Franchised brands (Franchisors) in Pune city and surrounding areas is shown in Table 4.4, Figure 4.4 and Figure 4.5 as given below.

Table 4.4: Distribution of Franchised Brands in Pune City & Surrounding Areas: Sub-sector wise

Sr.No.	Franchise Subsector	No. of Operative Franchised Brands in Pune & Surrounding Areas	% of Total Franchised Brands
1	Retail and Lifestyle	248	34.25%
2	Food and Beverages	164	22.65%
3	Healthcare and Beauty	109	15.06%
4	Education	89	12.29%
5	Support Services	114	15.75%
	Total	724	100%

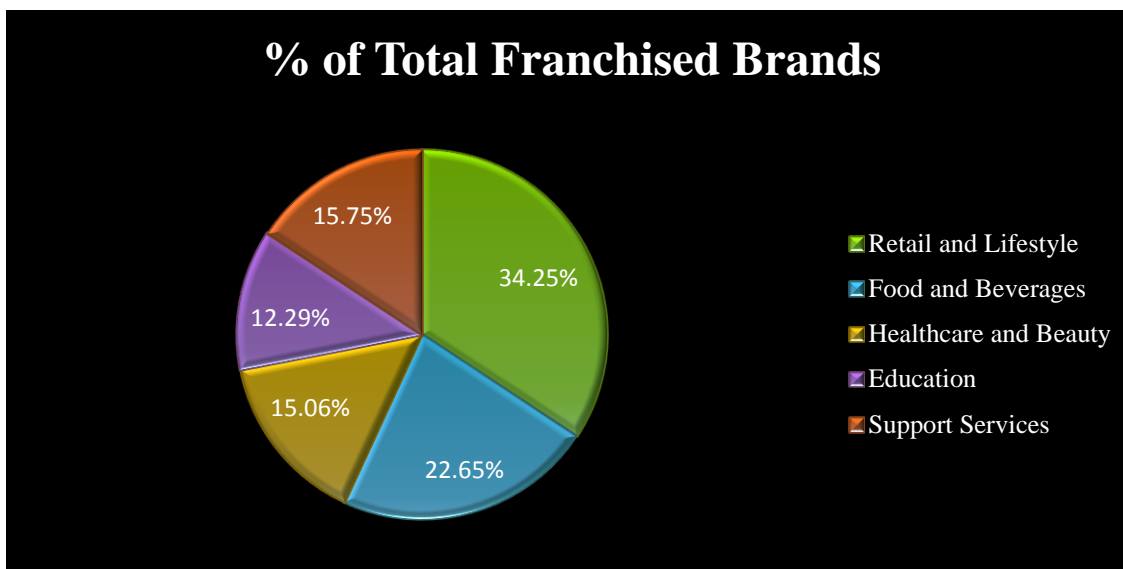
Source: Secondary Data

Figure 4.4: % Distribution of Franchised Brands in Pune & surrounding Areas - Subsector wise (Bar Chart)



Source: Secondary Data

Figure 4.5: % Distribution of Franchised Brands in Pune & surrounding Areas - Subsector wise (Pie Chart)



Source: Secondary Data

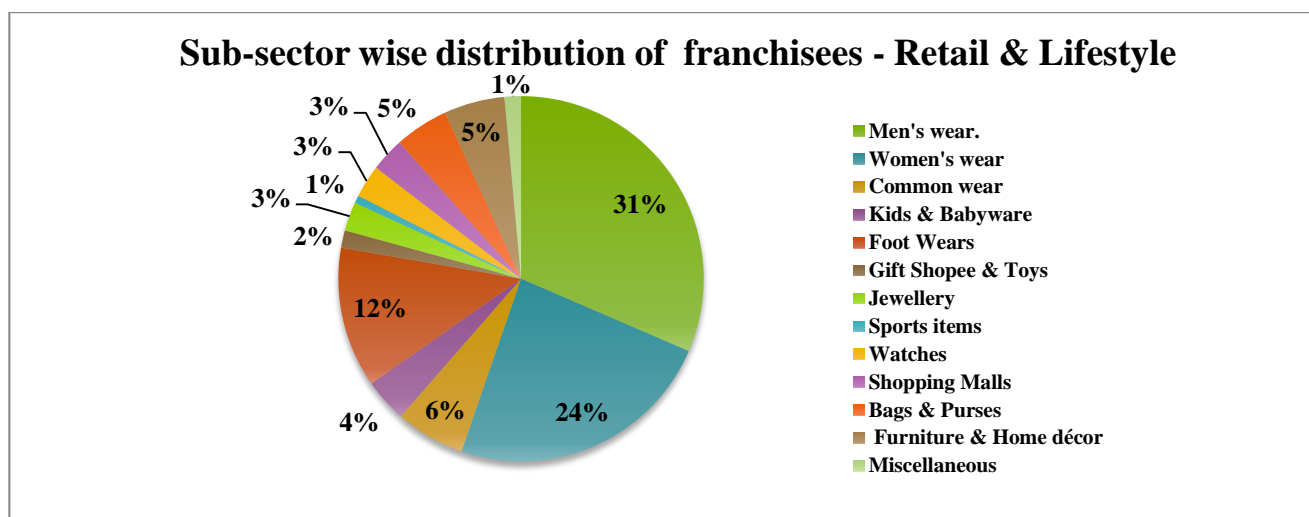
The Sub-sector wise distribution of franchisees in Retail & Lifestyle sector in Pune & surrounding areas is shown in Table 4.5, Figure 4.6 as given below.

Table 4.5: Sub-sector wise distribution of franchisees in Retail & Lifestyle

Sr.No.	Retail & Lifestyle Sub-sector	No. of Franchisees	%
1	Men's wear.	369	31.48
2	Women's wear	279	23.81
3	Common wear	72	6.14
4	Kids & Baby wear	45	3.84
5	Foot Wears	146	12.46
6	Gift Shoppe & Toys	18	1.54
7	Jewelry	30	2.56
8	Sports items	8	0.68
9	Watches	34	2.9
10	Shopping Malls	35	2.99
11	Bags & Purses	56	4.79
12	Furniture & Home décor	63	5.38
13	Miscellaneous	17	1.45
	Total	1172	100

Source: Secondary Data

Figure 4.6: Sub-sector wise distribution of franchisees in Retail & Lifestyle



Source: Secondary Data

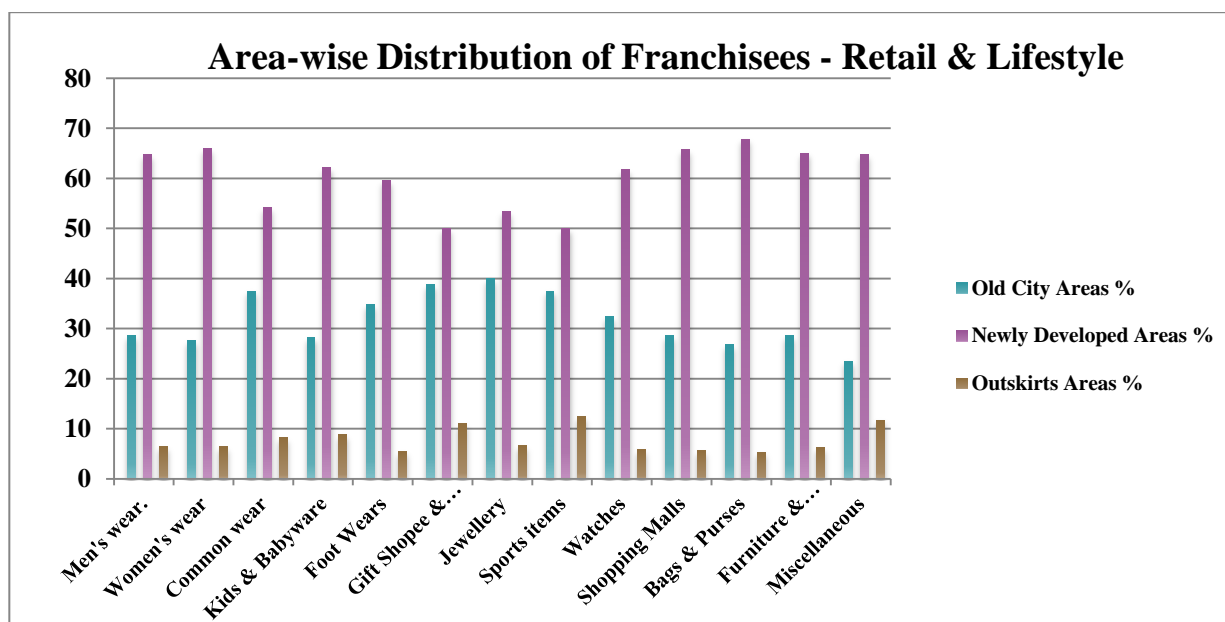
The Areas-wise distribution of franchisees in Retail & Lifestyle sector in Pune & surrounding areas is shown in Table 4.6, Figure 4.7 as given below.

Table 4.6: Area-wise distribution of franchisees in Retail & Lifestyle

Sr. No.	Retail & Lifestyle Sub-sector	Old City Areas		Newly Developed Areas		Outskirts Areas		Total No.of Franchisees
		No.of Franchisees	%	No.of Franchisees	%	No.of Franchisees	%	
1	Men's wear.	106	28.7	239	64.77	24	6.5	369
2	Women's wear	77	27.6	184	65.95	18	6.45	279
3	Common wear	27	37.5	39	54.17	6	8.33	72
4	Kids & Babyware	13	28.3	28	62.22	4	8.89	45
5	Foot Wears	51	34.9	87	59.59	8	5.48	146
6	Gift Shoppee & Toys	7	38.9	9	50	2	11.1	18
7	Jewelry	12	40	16	53.33	2	6.67	30
8	Sports items	3	37.5	4	50	1	12.5	8
9	Watches	11	32.4	21	61.77	2	5.88	34
10	Shopping Malls	10	28.6	23	65.71	2	5.71	35
11	Bags & Purses	15	26.8	38	67.86	3	5.36	56
12	Furniture & Home décor	18	28.6	41	65.08	4	6.35	63
13	Miscellaneous	4	23.5	11	64.7	2	11.8	17
	Total	354	30	740	63.1	78	6.66	1172

Source: Secondary Data

Figure 4.7: Area-wise distribution of franchisees in Retail & Lifestyle



Source: Secondary Data

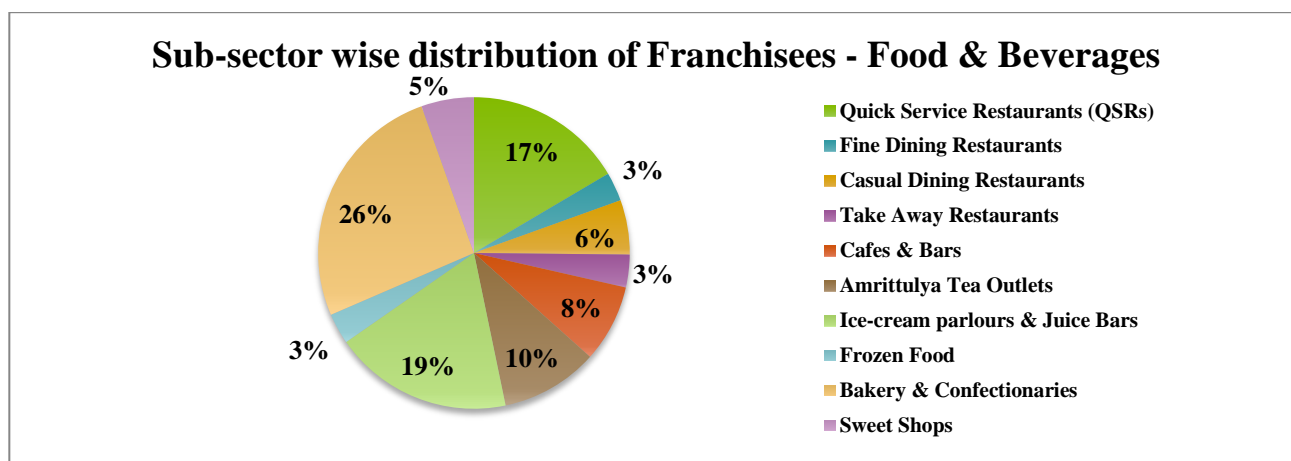
The Sub-sector wise distribution of franchisees in Food & Beverages sector in Pune & surrounding areas is shown in Table 4.7, Figure 4.8 as given below.

Table 4.7: Sub-sector wise distribution of franchisees in Food & Beverages

Sr.No.	Food & Beverages Sub-Sector	No.of Franchisees	%
1	Quick Service Restaurants (QSRs)	248	16.51
2	Fine Dining Restaurants	45	3
3	Casual Dining Restaurants	85	5.66
4	Take Away Restaurants	51	3.4
5	Cafes & Bars	121	8.06
6	Amruttulya Tea Outlets	152	10.12
7	Ice-cream parlors & Juice Bars	279	18.58
8	Frozen Food	48	3.2
9	Bakery & Confectionaries	391	26.03
10	Sweet Shops	82	5.46
	Total	1502	100

Source: Secondary Data

Figure 4.8: Sub-sector wise distribution of franchisees - Food & Beverages



Source: Secondary Data

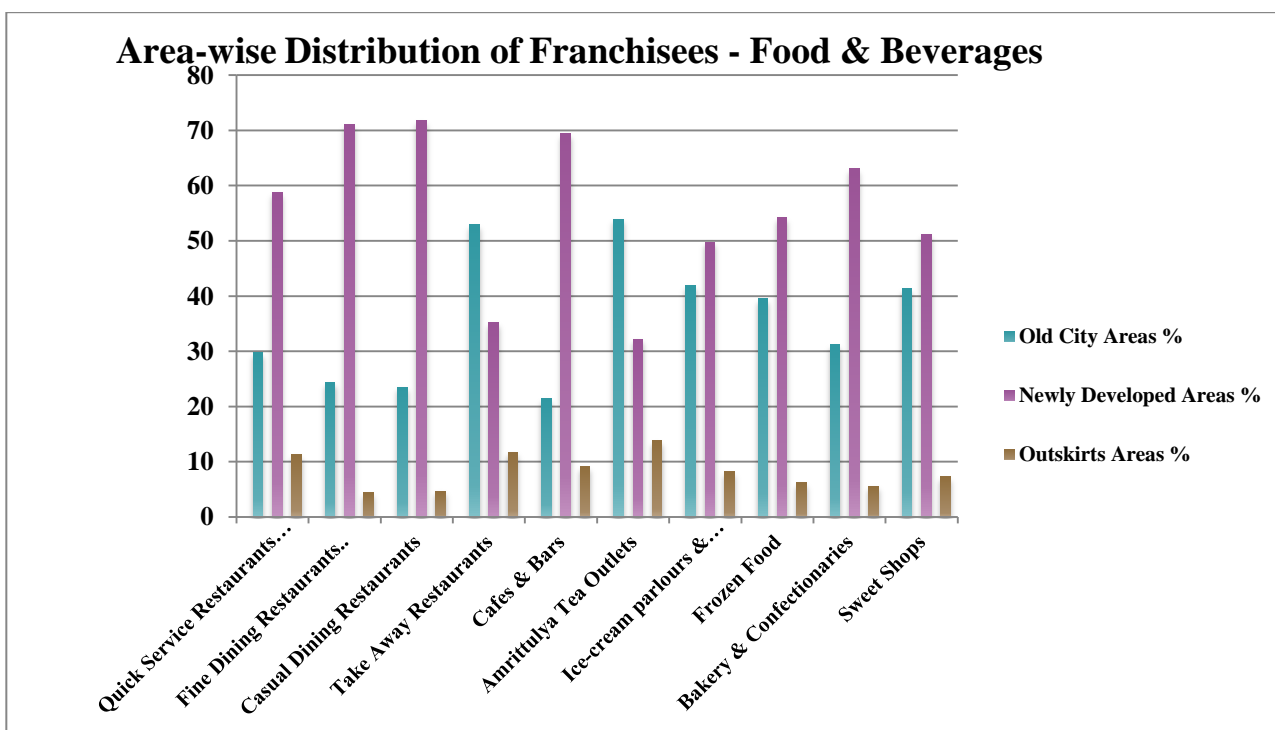
The Areas-wise distribution of franchisees in Food & Beverages sector in Pune & surrounding areas is shown in Table 4.8, Figure 4.9 as given below.

Table 4.8: Area-wise distribution of franchisees in Food & Beverages

Sr.No.	Food & Beverages Sub-Sector	Old City Areas		Newly Developed Areas		Outskirts Areas		Total No.of Franchisees
		No.of Franchisees	%	No.of Franchisees	%	No.of Franchisees	%	
1	Quick Service Restaurants (QSRs)	74	29.83	146	58.87	28	11.29	248
2	Fine Dining Restaurants.	11	24.44	32	71.11	2	4.45	45
3	Casual Dining Restaurants	20	23.53	61	71.77	4	4.71	85
4	Take Away Restaurants	27	52.94	18	35.29	6	11.77	51
5	Cafes & Bars	26	21.48	84	69.42	11	9.09	121
6	Amrittulya Tea Outlets	82	53.95	49	32.24	21	13.82	152
7	Ice-cream parlors & Juice Bars	117	41.94	139	49.82	23	8.24	279
8	Frozen Food	19	39.58	26	54.17	3	6.25	48
9	Bakery & Confectionaries	122	31.2	247	63.17	22	5.63	391
10	Sweet Shops	34	41.46	42	51.22	6	7.32	82
	Total	532	35.4	844	56.2	126	8.39	1502

Source: Secondary Data

Figure 4.9: Area-wise Distribution of Franchisees – Food & Beverages



Source: Secondary Data

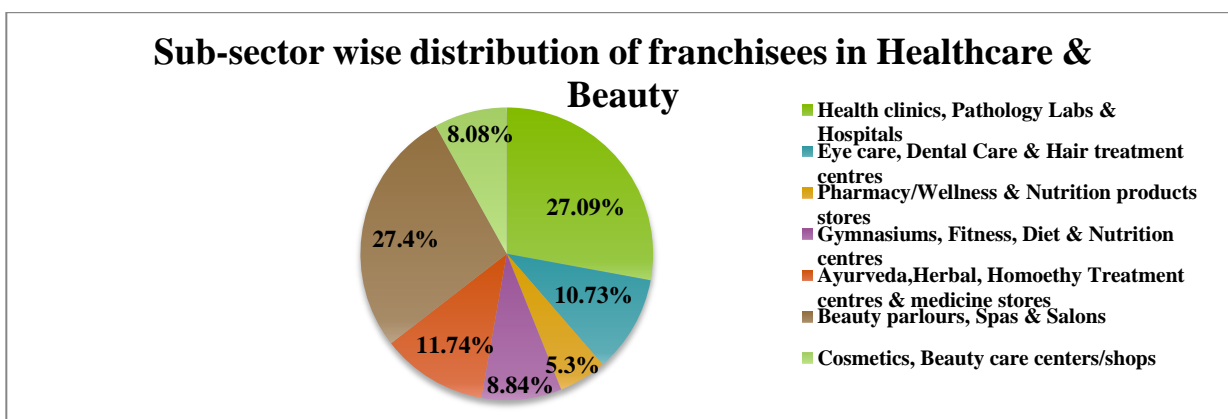
The Sub-sector wise distribution of franchisees in Healthcare & Beauty sector in Pune & surrounding areas is shown in Table 4.9, Figure 4.10 as given below.

Table 4.9: Sub-sector wise distribution of franchisees in Healthcare & Beauty

Sr.No.	Healthcare & Beauty Sub-Sector	No.of Franchisees	%
1	Health clinics, Pathology Labs & Hospitals	221	27.9
2	Eye care, Dental Care & Hair treatment centers	85	10.73
3	Pharmacy/Wellness & Nutrition products stores	42	5.3
4	Gymnasiums, Fitness, Diet & Nutrition centers	70	8.84
5	Ayurveda, Herbal, Homoeopathy Treatment centers & medicine stores	93	11.74
6	Beauty parlors, Spas & Salons	217	27.4
7	Cosmetics, Beauty care centers/shops	64	8.08
	Total	792	100

Source: Secondary Data

Figure 4.10: Sub-sector wise distribution of franchisees – Healthcare & Beauty



Source: Secondary Data

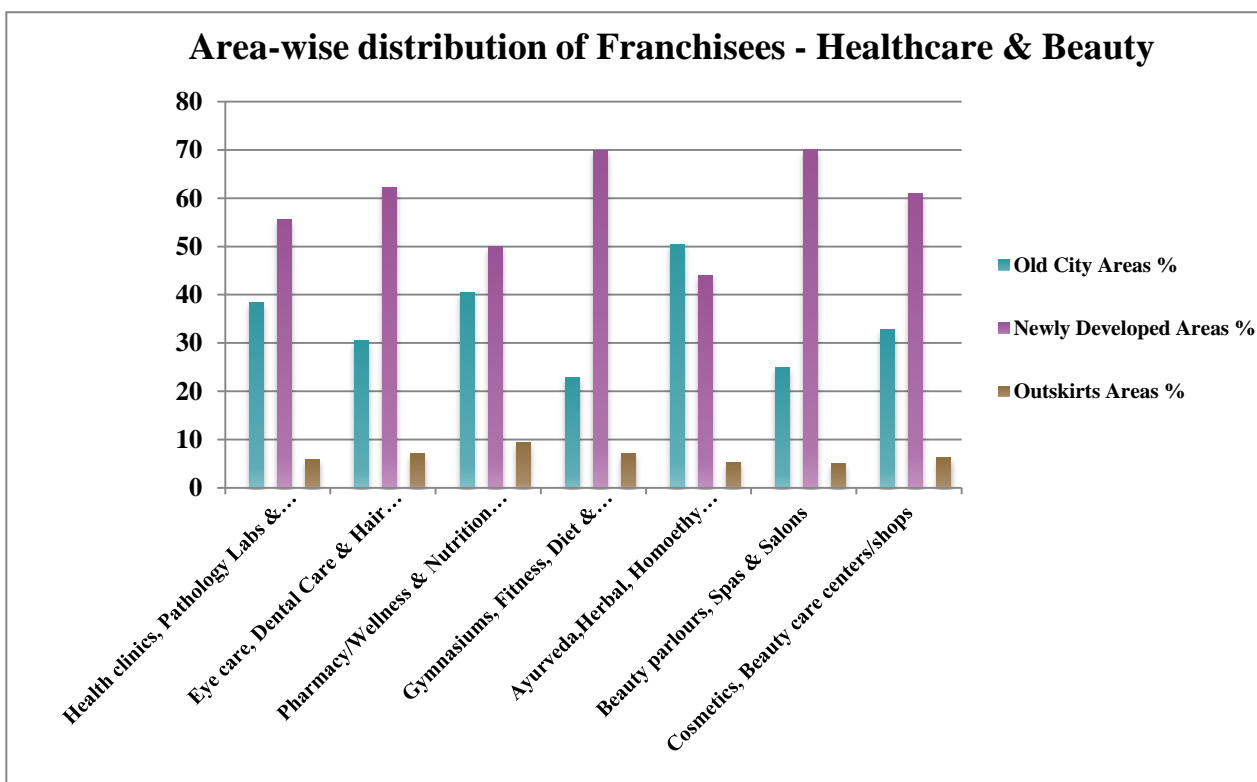
The Area-wise distribution of franchisees in Healthcare & Beauty sector in Pune & surrounding areas is shown in Table 4.10, Figure 4.11 as given below.

Table 4.10: Area-wise distribution of franchisees in Healthcare & Beauty

Sr. No.	Healthcare & Beauty Sub - Sector	Old City Areas		Newly Developed Areas		Outskirts Areas		Total Franchisees
		No.of Franchisees	%	No.of Franchisees	%	No.of Franchisees	%	
1	Health clinics, Pathology Labs & Hospitals	85	38.5	123	55.7	13	5.88	221
2	Eye care, Dental Care & Hair treatment centers	26	30.6	53	62.4	6	7.06	85
3	Pharmacy/Wellness & Nutrition products stores	17	40.5	21	50	4	9.52	42
4	Gymnasiums, Fitness, Diet & Nutrition centers	16	22.9	49	70	5	7.14	70
5	Ayurveda, Herbal, Homoeopathy Treatment centers & medicine stores	47	50.5	41	44.1	5	5.38	93
6	Beauty parlors, Spas & Salons	54	24.9	152	70.1	11	5.07	217
7	Cosmetics, Beauty care centers	21	32.8	39	60.9	4	6.25	64
	Total	266	33.6	478	60.4	48	6.06	792

Source: Secondary Data

Figure 4.11: Area-wise distribution of franchisees in Healthcare & Beauty



Source: Secondary Data

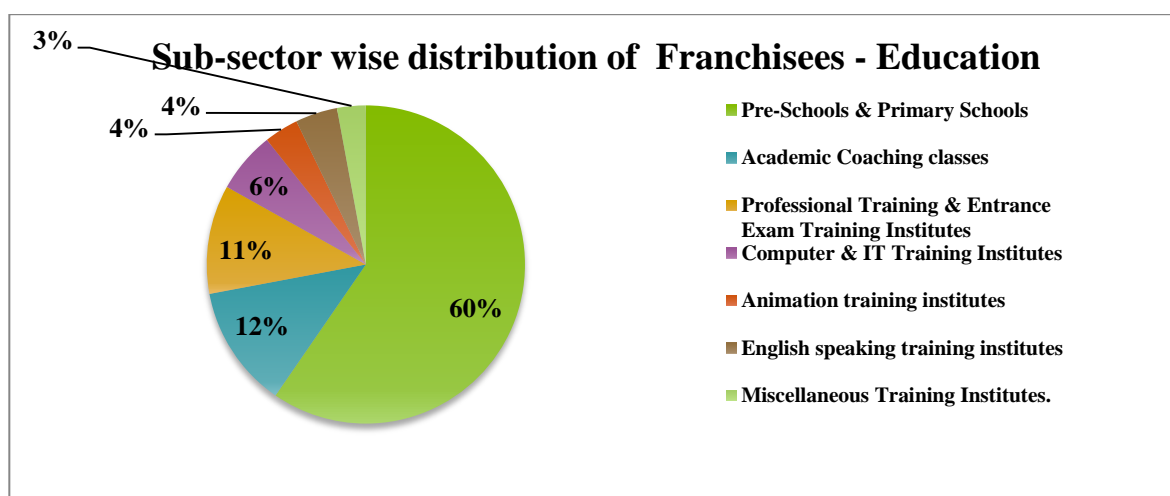
The Sub-sector wise distribution of franchisees in Education sector in Pune & surrounding areas is shown in Table 4.11, Figure 4.12 as given below.

Table 4.11: Sub-sector wise distribution of franchisees in Education

Sr.No.	Education Sub-sector	No.of Franchisees	%
1	Pre-Schools & Primary Schools	307	59.61
2	Academic Coaching classes	64	12.43
3	Professional Training & Entrance Exam Training Institutes	57	11.07
4	Computer & IT Training Institutes	32	6.21
5	Animation training institutes	18	3.5
6	English speaking training institutes	22	4.27
7	Miscellaneous Training Institutes.	15	2.91
	Total	515	100

Source: Secondary Data

Figure 4.12: Sub-sector wise Distribution of Franchisees - Education



Source: Secondary Data

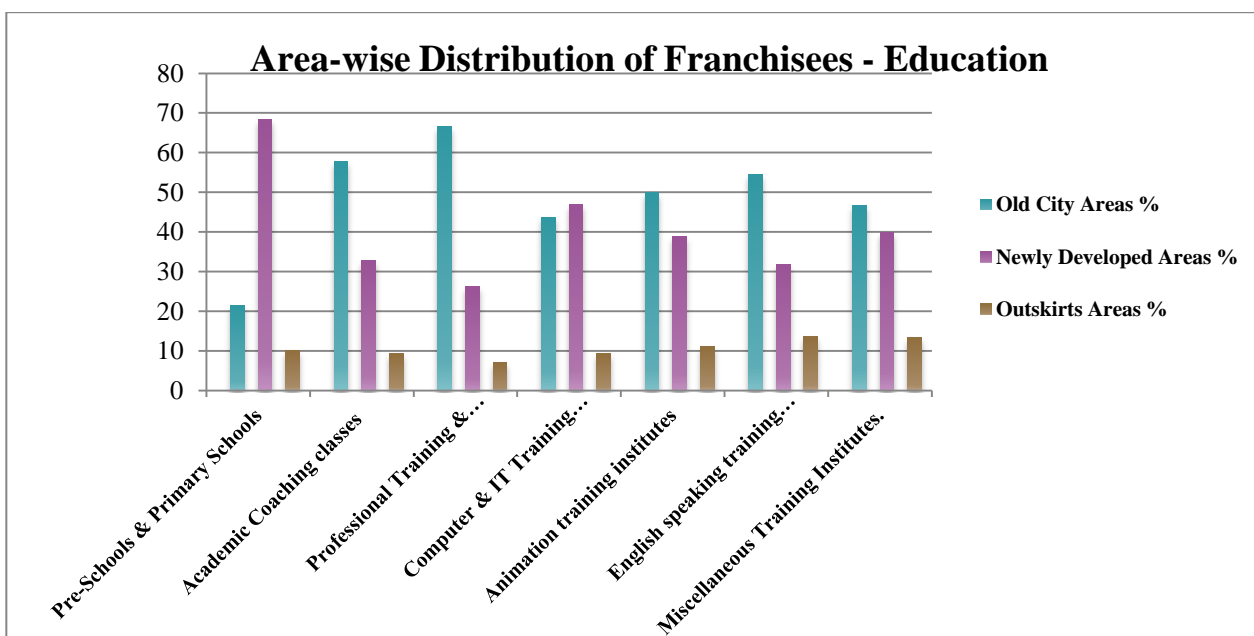
The Area-wise distribution of franchisees in Education sector in Pune & surrounding areas is shown in Table 4.12, Figure 4.13 as given below.

Table 4.12: Area-wise distribution of franchisees in Education

Sr. No.	Education Sub-sector	Old City Areas		Newly Developed Areas		Outskirts Areas		Total No. of Franchisees
		No. of Franchisees	%	No. of Franchisees	%	No. of Franchisees	%	
1	Pre-Schools & Primary Schools	66	21.5	210	68.4	31	10.1	307
2	Academic Coaching classes	37	57.81	21	32.81	6	9.38	64
3	Professional Training & Entrance Exam Traing.Instts	38	66.67	15	26.32	4	7.02	57
4	Computer & IT Training Institutes	14	43.75	15	46.88	3	9.38	32
5	Animation training institutes	9	50	7	38.89	2	11.1	18
6	English speaking training institutes	12	54.55	7	31.82	3	13.6	22
7	Miscellaneous Training Institutes.	7	46.67	6	40	2	13.3	15
	Total	183	35.5	281	54.6	51	9.9	515

Source: Secondary Data

Figure 4.13: Area-wise Distribution of Franchisees - Education



Source: Secondary Data

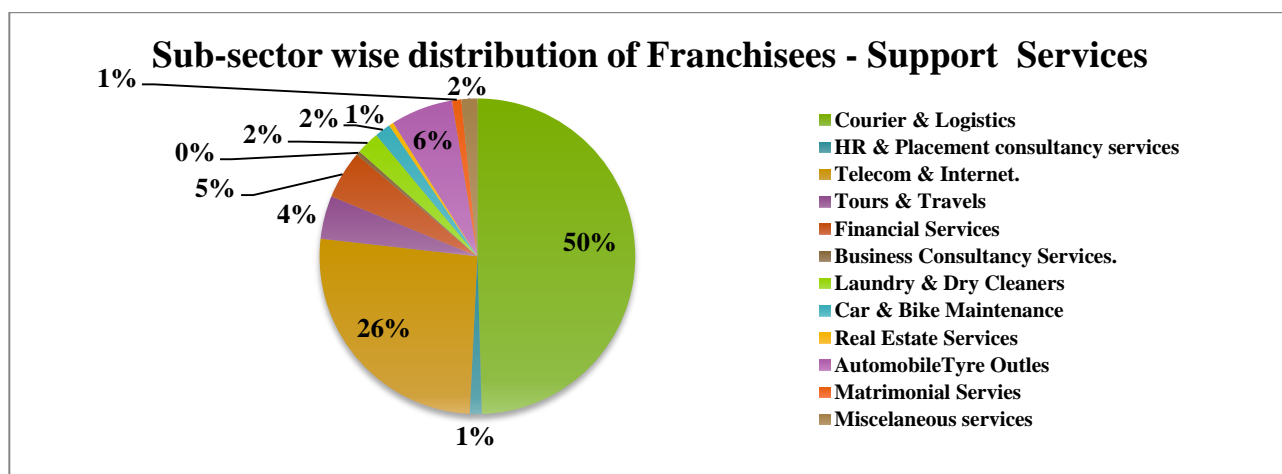
The Sub-sector wise distribution of franchisees in Support Services sector in Pune & surrounding areas is shown in Table 4.13, Figure 4.14 as given below.

Table 4.13: Sub-sector wise distribution of franchisees in Support Services

Sr.No.	Support Services Sub-sector	No.of Franchisees	%
1	Courier & Logistics	730	49.56
2	HR & Placement consultancy services	18	1.22
3	Telecom & Internet.	383	26
4	Tours & Travels	65	4.41
5	Financial Services	73	4.96
6	Business Consultancy Services.	6	0.41
7	Laundry & Dry Cleaners	35	2.38
8	Car & Bike Maintenance	24	1.63
9	Real Estate Services	7	0.48
10	Automobile Tyre Outlets	94	6.38
11	Matrimonial Services	14	0.95
12	Miscellaneous services	24	1.63
	Total	1473	100

Source: Secondary Data

Figure 4.14: Sub- Sector wise Distribution of Franchisees – Support Services



Source: Secondary Data

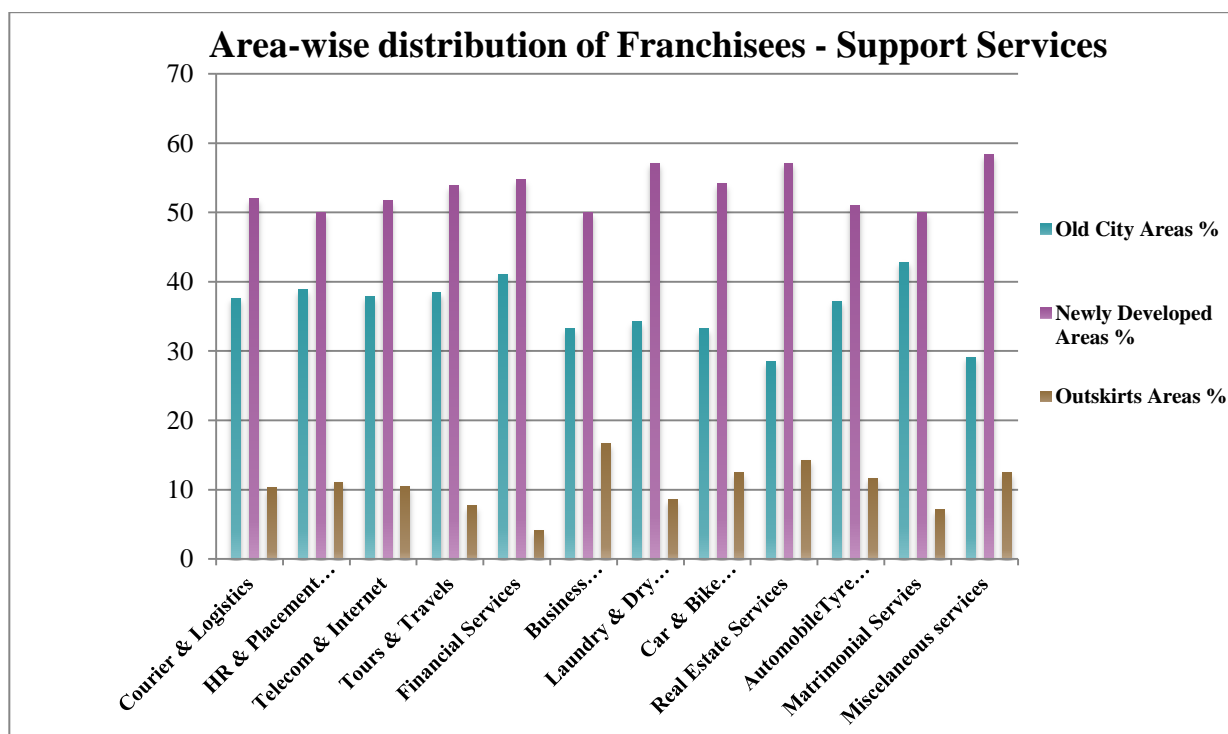
The Area-wise distribution of franchisees in Support Services sector in Pune & surrounding areas is shown in Table 4.14, Figure 4.15 as given below.

Table 4.14: Area-wise distribution of franchisees in Support Services

Sr. No.	Support Services Sub-sector	Old City Areas		Newly Developed Areas		Outskirts Areas		Total No. of Franchisees
		No. of Franchisees	%	No. of Franchisees	%	No. of Franchisees	%	
1	Courier & Logistics	275	37.67	380	52.05	75	10.27	730
2	HR & Placement consultancy services	7	38.89	9	50	2	11.11	18
3	Telecom & Internet	145	37.86	198	51.7	40	10.44	383
4	Tours & Travels	25	38.46	35	53.85	5	7.69	65
5	Financial Services	30	41.1	40	54.79	3	4.11	73
6	Business Consult. Services.	2	33.33	3	50	1	16.67	6
7	Laundry & Dry Cleaners	12	34.29	20	57.14	3	8.57	35
8	Car & Bike Maintenance	8	33.33	13	54.17	3	12.5	24
9	Real Estate Services	2	28.57	4	57.14	1	14.29	7
10	Automobile Tyre Outlets	35	37.23	48	51.06	11	11.7	94
11	Matrimonial Services	6	42.86	7	50	1	7.14	14
12	Miscellaneous services	7	29.16	14	58.33	3	12.5	24
	Total	554	37.61	771	52.3	148	10.1	1473

Source: Secondary Data

Figure 4.15: Area-wise Distribution of Franchisees – Support Services



Source: Secondary Data

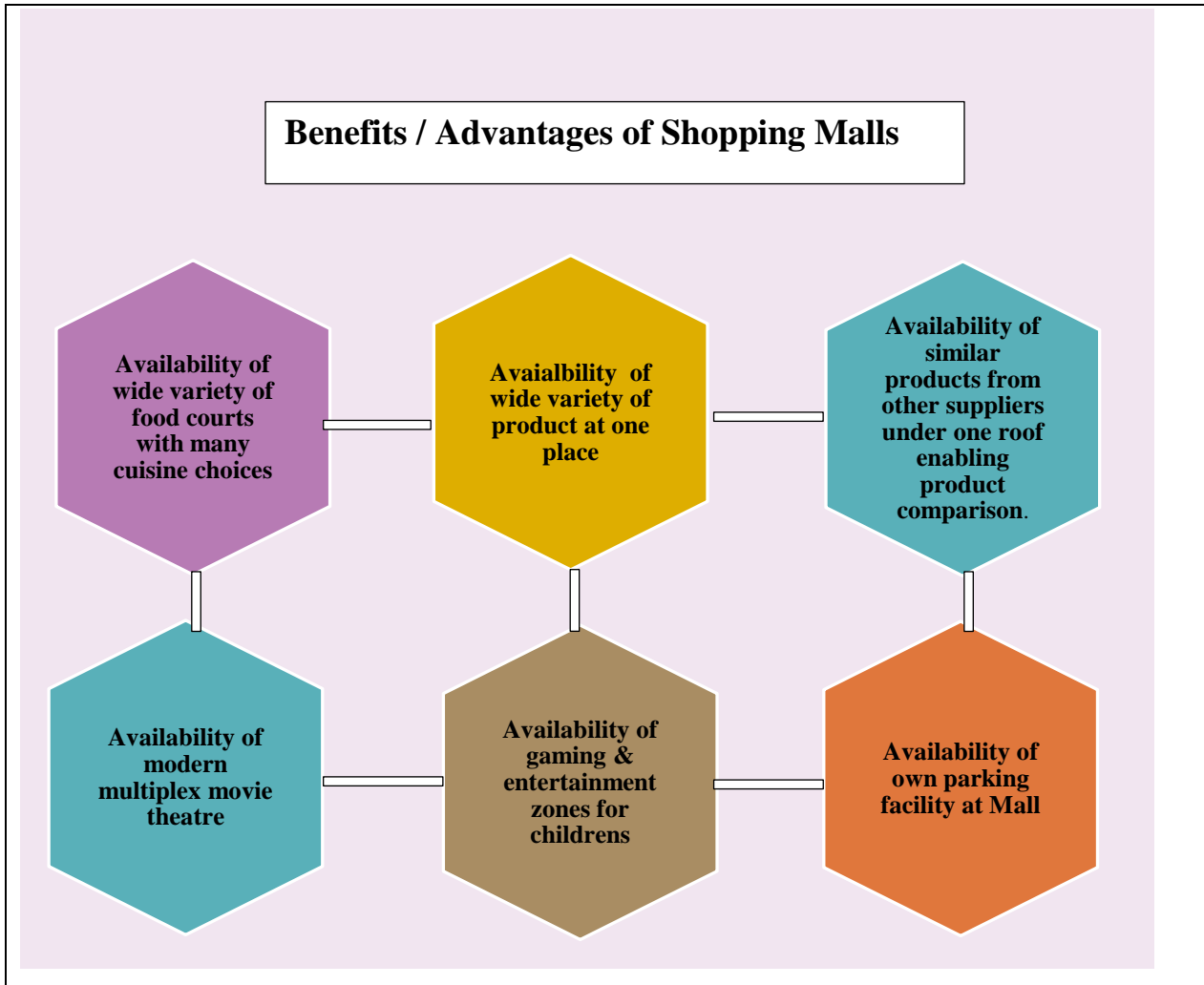
4.6 SHOPPING MALLS - A GROWTH FACTOR FOR REGIONAL FRANCHISORS

According to the latest report on the retail potential of Indian cities, from the real estate consulting firm of Jones Lang LaSalle (JLL) India, The seven major metro cities are Mumbai, Delhi and NCR, Bangalore, Pune, Chennai, Kolkata and Hyderabad. The next 13 emerging tier-II and tier – III cities seeing growth I retail market potential and maturity are Ahmedabad, Chandigarh, Surat, Amritsar, Nagpur, Vadodara, Coimbatore, Ludhiana, Lucknow , Jaipur, Indore, Kanpur and Raipur. The report compared retail attractiveness of 20 cities for the years 2011 and 2013. Apart from Ahmedabad and Chandigarh attaining high retail attractiveness in 2013 as against 2011, Surat moved ahead of Amritsar in terms of retail market potential.

Many of the regional franchisors have agreed to the fact that last five years the number of malls has almost doubled leading to opening of more stores. Malls are the chosen destinations for retailers now. Almost all the brands in to franchising are targeting malls for their venture. One can find various franchisees moving to malls from market to cash in on the trends.

4.6.1 BENEFITS / ADVANTAGES OF SHOPPING MALLS

Figure 4.16: Benefits/Advantages of Shopping Malls





















Source: Secondary Data




Malls have a special place in the hearts of the people of Pune. Apart from education and Information Technology, malls in Pune are the X factor for the high growth rate of the city. Ever since 2010, the number of malls in Pune has risen significantly and is doing so even at present.

Here is a list of the major malls in Pune.

Table 4.15: Major Shopping Malls in Pune & Surrounding Areas

Sr.No.	Name of the Mall	Address	Picture of Mall
1	Phoenix Market city Mall	Vimannagar, Pune	
2	Seasons Mall	Magarpatta Road, Hadapsar, Pune	
3	Ammanora Mall	Magarpatta Road, Hadapsar, Pune	
4	Westend Mall	Aundh, Pune	
5	Pavilion Mall	Senapati Bapat Road, Pune	
6	SGS Mall	Moledina Road, Camp, Pune	
7	Kumar Pacific Mall	7 Loves Square, Pune	
8	Central Mall	University Road, Pune	

9	Royal Heritage Mall (Dorabjee Mall)	NIBM Extension, Undri, Pune	
10	Central Mall	Erandvane	
11	Ishanya Mall	Yerwada, Pune	
12	93 Avenue Mall	Wanowri, Pune	
13	Central Mall	Pimpri	
14	City One Mall	Pimpri, Pune	
15	Premier Plaza Mall	Pimpri, Pune	
16	Abhiruchi Mall	Sinhgad Road, Pune	
17	Connaught Place	Bund Garden Road, Pune	
18	Xion Mall	Hinjewadi, Pune	

19	Lifestyle Mall	Camp, Pune	
20	Elpro City Square Mall	Chinchwad, Pune	
21	R Deccan Mall	Deccan Gymkhana, Pune	

Source: Primary Data

4.7 VARIOUS FRANCHISED BRANDS (ALL SECTORS) AVAILABLE IN PUNE & SURROUNDING AREAS

Following sections gives details of various popular franchised brands available in Pune city and surrounding areas. These brands includes franchisees from 5 differents sectors of franchising business as mentioned below:

- i. Retail & Lifestyle
- ii. Food & Beverages
- iii. Healthcare & Beauty
- iv. Education
- v. Support Services

The well-known franchised brands from International, National & Local origin are shown in the following pictures.

4.7.1 FRANCHISEES IN RETAIL & LIFESTYLE SECTOR – PUNE REGION

Figure 4.17: Franchisees in Retail & Lifestyle Sector – Pune Region



Source: Primary and Secondary Data

4.7.2 FRANCHISEES IN FOOD & BEVERAGES SECTOR – PUNE REGION

Figure 4.18: Franchisees in Food & Beverages Sector – Pune Region



Source: Primary and Secondary Data

4.7.3 FRANCHISEES IN HEALTHCARE & BEAUTY SECTOR – PUNE REGION

Figure 4.19: Franchisees in Healthcare & Beauty Sector – Pune Region



Source: Primary and Secondary Data

4.7.4 FRANCHISEES IN EDUCATION SECTOR – PUNE REGION

Figure 4.20: Franchisees in Education Sector – Pune Region



Source: Primary and Secondary Data

4.7.5 FRANCHISEES IN PUNE REGION - SUPPORT SERVICES SECTOR

Figure 4.21: Franchisees in Support Services Sector – Pune Region



Source: Primary and Secondary Data

All the relevant data analysis, facts and figures with reference to the growth and development of Franchising business in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.1 - H0: There is a low development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations.”

Thus, “Alternative Hypothesis No.1-H1: There is a considerable development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations is Accepted.”

4.8 CONFLICTING ISSUES & CHALLENGES FACED BY THE FRANCHISOR

It is a common observation that the general behavior and attitude of people at the operational level are the key aspects that really makes franchising work. Once a franchisor gets to the next phase after successfully passing the initial phases of establishment, it usually finds that these operating issues overwhelm all other prevailing issues. In following section, we take a look at some of the challenging issues a franchisor faces once the system is successfully launched in to the market.

4.8.1 Gaining and Keeping a Cooperative Atmosphere

A critical issue in franchising is that franchisees see the benefits they derive when the outlet is new. Once it is underway, they may question whether they are receiving continuing value in return for their royalties.

Franchising's inherent conflict between being one's own boss and being almost a subsidiary becomes prominent once the business gains ground. Franchisors must respond by earning the franchisee's continuing cooperation and goodwill. How can they do so?

Franchisees are more cooperative when they sense a solid relationship between themselves and their franchisor. Strong relationships with franchisors can thrive, even in high-pressure environments, such as many intensely competitive retail industries. Several conditions encourage franchisees to hold feelings of solidarity with the franchisor. Stronger bonds exist when:

- a. Franchisees feel that good performance is recognized by the franchisor.

- b. Franchisees feel they control their own business, setting standards and making decisions as they see fit.
- c. Franchisees feel the franchisor is fair, setting reasonable objectives and not terminating franchisees without good reason.
- d. Franchisees feel a team spirit among themselves, getting on well internally and taking an interest in each other.
- e. Franchisees feel their franchisor encourages them to innovate (try new methods develop ideas, solve problems).

Franchising activity is mostly asymmetric in nature, with franchisees themselves being dependent on the franchisor to a great extent. Still, franchisees are entrepreneurs in a true sense and feel the entrepreneur's need to be the boss for making the business successful. One of the crucial roles of franchisor is to exert influence on franchisees without appearing themselves to threaten the franchisee's autonomy. This truly is a great balancing act that requires diplomacy and persuasive skills of franchisor. This is the reason why franchisors are seen to resolve highly conflicting issues by searching for integrative, win-win solutions, in which franchisee and franchisor collectively find out mutually acceptable & beneficial solutions.

4.8.2 Conflicting Issues pertaining to the Inherent Goals

A potential source of conflicting issues into every franchising arrangement is the clash of inherent goals between franchisor and franchisee. This clash is due to the difference between how much does each party invests in to the franchised association and how much does each party earns out of this association. For the franchisor, higher sales are always preferred. Higher sales mean higher variable fees which in turn, enables more promotion leading enhanced brand equity. More equity increases the fees (fixed and variable) that can be charged and also it grows the pool of prospective store managers/in-charge and franchisees as well.

On a Franchisee's part, in a given area of operation, doing more sales means earning more profits, but getting higher sales in turn necessitates putting in to more resources and thereby adding costs in running the franchising business.

4.8.3 Franchising - A Partnership

One of the principle reasons for the franchising arrangements gaining wide popularity is its ability to adapt to a varied corporate environments, goals and structures. The typical example can be given is that of a small sized firm with a well-defined system & set out procedures but

short on available funds can simply go ahead and get in to the role of a franchisor in order to grow and expand rapidly as its financial needs are satisfied by its associated franchisees. Such a firm (franchisor) depends largely upon the their associated franchisees that provides the necessary start-up resources in terms of funds and also the required working capital for opening up newer outlets, recruitment of skilled employees and for managing the daily operations.

To become successful in franchised business, the franchisee-franchisor relationship should be based on a mutual trust, cooperation and benefits. The foremost thing is that the franchisee must have faith in the franchisor's brand/product, confidence in its business operating system and method and conviction in the franchisor's business growth strategies. The franchisor on the other hand should have given the foremost importance to the franchisees' success in the business venture.

If the franchising rules & set procedures are followed religiously by both Franchisor & Franchisee it can evolve into a successful partnership leading to an exponential growth of the business. Franchisors can achieve enhanced cumulative sales& profitability by way of expanding the franchised network successfully.

4.8.4 Franchising Relationship

Franchising process is more like a marriage of two mutually deserving partners. The resource investment is high with both Franchisors as well as Franchisee. The franchisor shows preparedness to give up his brand and assets, and the franchisee sacrifices its independence or the right to operate alone. The mutual trust is the very foundation of the enduring relationship between the franchisor and franchisee.

There are typically 5 types of Franchising relationship exists in franchising business as follows:

- a. Manufacturer – Retailer
- b. Manufacturer – Manufacturer
- c. Manufacturer – Wholesaler
- d. Wholesaler – Retailer
- e. Retailer – Retailer

a. Manufacturer - Retailer:

This is the most common type of franchise relationship between a manufacturer and a retailer or sometimes a wholesaler e.g. Hadrian franchised outlet, Bata show outlets etc.

b. Manufacturer-Manufacturer:

This type of franchise relationship is supposed to be the oldest one in India. In this relationship one manufacturer produces goods & associated services for the other under licensing arrangement and supplies those goods to the licensee. Large industries are often seen franchising the manufacturing activities of such items to SSI units. These franchise SSI units manufacture the items as per the product design, specifications and quality control norms laid down by the franchisor. The SSI franchisees use the trademark & logo of the franchisor who is responsible for sales and marketing activity of the manufactured items. The best example of this relationship is Singer sewing machines which has three franchise manufacturers, two in Ludhiana and one in Hapur. Hindustan Lever and Colgate offers franchisee manufacturing to the specified SSI units for the production of tooth brush. These SSI units manufactures items strictly as per the well set out standard norms of quality & product specifications. These also includes sub-contractors who produces items as per the design and technical specifications & quality norms laid down by their mother units, who provide them with all the necessary technical inputs/assistance.

c. Manufacturer - Wholesaler:

This type of relationship is a typical example of exclusive distributorship. In certain instances the franchisees themselves under license manufactures and distributes the products of the franchisor. Mineral water bottling and Soft drink bottling are the best examples of Manufacturer Wholesaler relationship.

d. Wholesaler - Retailer: In this relationship the retailer as a franchisee purchases products for resale from a wholesaler as a franchisor. Often the retail franchisee purchases products & associated services from a wholesaling firm. As per a documented agreement/contract between the retail franchisee and the wholesale company the retail franchisee is required to purchases products & associated services exclusively through that wholesaler. This is not so common in India but is often seen in automobile and hardware product outlets in developed countries like Europe and US.

Retailer- Retailer:

type of franchise relationships is relatively new in India. These relationships are quite different from the manufacturer - retail franchise relationships which are already in existence in India. In this relationship the franchisor usually markets a products or associated services under a

common brand name and a standardized system using a network of franchisees. Retailer-Retailer relationship tends to duplicate one retail outlet. It can vary from chain of restaurants, where in the franchisees have a lot of independence and pay a royalty for using the name, wherein all the necessary decisions including recruitment and training of staff are supposed to be taken by the franchisor. In such case the franchisee seems to be an extension of the franchisor. Each & every franchisee outlet shows close resemblance with that of the franchisor. It is more like the company outlets but with different owners and investors. Further, the Manufacturer-Retailer and Manufacturer-Wholesaler relationships are usually known as as product or trade name franchises. In these types of relationships, the franchisees get the right to distribute the manufacture's or wholesaler's products within a designated region or territory. The retailer (franchisee) make use of manufacturer's (franchisor's) trademark and logo and in turn pays the royalty or a fees to the franchisor which is mutually agreed upon between both of the parties involved in the franchising arrangement. It is seen that currently, the business format franchising is growing at a faster pace and is fast spreading up in to majority sectors of economy, right from educational institution to restaurants and pathology/clinical laboratories. Business format franchising arrangements requires a kind of unique relationship between the owner of the franchising system (the franchisor) and the owner of the outlet (the franchisee). This relationship can be typically termed as "the commercial marriage between franchisor & franchisee". There has to be a win-win situation where the franchisor is able to grow and expand his franchised business without deploying much of his resources and the franchisee keeps gaining by associating with an established business system/brand with lower risk exposure.

4.8.5 Franchising partnership – A Legal Relationship

The unique relationship between franchisor and franchisee is also a legal relationship with certain responsibilities and obligations for both the parties involved and the same are well-specified in a detailed document called the "franchise agreement" which is duly signed by both of the parties - the franchisor and the franchisee. However the franchisor is required to take charge of the whole arrangement and be in control of the day-to-day affairs in order to enforce quality norms and standards and well set out systems which all are critical to the enduring success of the business association. The franchise agreement is usually seems to be titled mostly in favor of the franchisor.

4.8.6 Conflict Management

It is quite often observed that there are many different causes of friction existing between the franchisees and franchisors in a franchised business association. In case they are not addressed duly on time it can get developed in to a possible rift between franchisor & franchisee which might eventually lead to a disturbed relationship. Matter becomes worse when franchisors turn blind eye to the problems even though they are aware of the problems with franchisees.

4.8.7 Prominent Causes of Conflicts between franchisors and franchisees

1. Lack of necessary support that is given to the franchisees by the franchisors.
2. Low expenditure by Franchisors on marketing and advertising
3. Negligence on Franchisor's part for consideration of franchisees as the critical part of the franchisee ecosystem.
4. Poor training of franchisees and inadequate handholding during initial stages of operation.
5. Lack of "on-par" treatment with franchisees leading to decisions being thrust on them.
6. Dilution of quality standards by the franchisee.
7. Lack of information supply from the franchisor to the franchisee.
8. Lack of effective communication system with one sided communication to franchisees most of the times.
9. Breach of confidentiality and trust.
10. Franchisee's failure to make payments to the franchisor.
11. Lack of professional approach to franchisee relationship management.
12. Constant delays in payment by franchisee to the franchisor.
13. Non-sharing of financial stakes in the franchisor organization, especially when going public.
14. Transcending geographical exclusivity or reducing franchisee's radius of coverage.
15. Additional marketing fee for regional publicity, despite a high revenue share allocation.
16. Financial pressures leading to short term decision making by the franchisors in certain situation.
17. Irrelevant and unnecessary control and monitoring over the franchisee's Day-to-day actions in the business by the franchisors.
18. Damage to intellectual property by the franchisee.
19. Failure on the part of the franchisees with respect to reporting of the facts associated with the business transactions to the franchisors.

20. Lack of empathy by franchisor employees while handling their franchisees.

It is absolutely essential that franchisors need to evolve amicable strategies in a way to address various associated risks that could get emerged while being in the business relationship with franchisees. Obviously such strategies can assume significant importance in enduring the relationship as well as sustenance and growth of the franchisor-franchisee network. It is seen that a good number of the Indian franchisors have developed a positive, proactive and a well-disciplined culture that benefits their franchisees in a better way. An effective collaboration between regulators and franchisors will improve the perception of equity in franchising relationships which in turn will enhance superior perception of trust in franchising business.

4.8.8 Franchise Conflicts/ Disputes and Regulations

Conflicts or disputes are presumed to be a part of any relationship and hence franchising is not an exception to the same. In the due course of business it is quite natural that there will be certain conflicting issues/disputes among the franchisees and the franchisors. Avoidance of such conflicts completely is not possible and is in a way mostly impractical also. However, resolution of conflicts is possible and also feasible to stay away from getting in to an undesirable/difficult situation for the franchising partners. Because of various reasons such as the non-existence of specific franchise law, complexity of the franchise agreement/contract, application of multiple laws to the franchising etc. there is a high possibility of arising certain conflicting situations between the concerned franchising partners.

4.8.9 Forms of Conflicts Resolution

The conflicts or dispute may be caused due to various possible reasons. The resolution of these conflicting issues can be made possible through following five important ways.

1. Discussion

This is the first phase of resolution of dispute wherein both franchisees and franchisors personally meet and mutually discuss and resolve the existing conflicting issues.

2. Mediation

In this case a referee is appointed who is supposed to be an individual who is unbiased or impartial to both the franchising partners. This referee serves the role of the mediator, who is

supposed to patiently listens to the views of both the partners and thus give his impartial judgment/opinion which both the parties involved in the franchising should abide by.

3. Termination

This is an extreme step taken by the franchisor & franchisee to wind up the existing relationship between them by terminating the contract itself.

4. Arbitration

Here, in this case an independent institution gets involved in solving a conflicting issue. Both the parties involved appoint a mutually accepted and appointed arbitrator who can be an entity such as 'The Chamber of Commerce.'

5. Litigation

This method of conflict resolution is via the intervention of a certain judiciary. It is the costliest as well as most time consuming method of conflict among both the parties involved in franchising.

The Conflicts between franchiser and franchisee were measured with various parameters. The detailed analysis of each of the parameters is covered in the following sections.

4.8.10 FRANCHISEE'S AND FRANCHISOR'S OPINION ON CONFLICTS

Franchisees and Franchisors can have different opinions on the various conflicting parameters existing in their franchised association.

The franchisees and franchisors under survey questionnaire were asked on the parameters such as Lack of support, Compliance with the Conditions of the agreement, Fee remittances, Communication problems, Misrepresentation issues Marketing issues, Profit margins, Territory issues, Excessive control and Stock & Supply Issues. The responses from both the parties were analyzed.

Following paragraphs mentions the detailed study of franchisee's and franchisor's opinion on conflicts.

4.8.11 Franchisee's opinion on Conflicts

The responses given by Franchisee's are captured in the below Table.4.16

Table 4.16: Descriptive Statistics For Franchisee's opinion on Conflicts

Sr.No.	Parameter	No.of Respondents	Mean	Standard Deviation
1	Lack of Support	576	2.6754	1.7213
2	Communication Issues	576	2.9670	1.7837
3	Misinterpretation of Issues	576	3.3732	2.8839
4	Compliance with the conditions of Agreement	576	2.8299	1.6561
5	Training Issues	576	3.2674	2.7054
6	Territory Issues	576	2.6267	1.7589
7	Maintenance of Quality Standards	576	2.7656	1.6814
8	Marketing Issues	576	2.8785	1.5613
9	Profit Margins	576	2.9514	2.0881
10	Stocks & Supply Issues	576	2.5139	1.8430
11	Fee Remittance Issues	576	3.3056	2.7448
12	Excessive Control Issues	576	2.7257	1.7252
	Valid N (List wise)	576		

Source: Primary Data

Franchisees have felt that the Misinterpretation of issues is least frequent with highest mean value of 3.3732 and standard deviation of 2.8839, followed by Fees Remittances, Training issues, Communication issues, Profit Margins, Marketing issues, Compliance with the Conditions of Agreement, Maintenance of Quality Standards, Excessive Control, Lack of Support, Territory issues and finally Stock & Supply issues with a mean value of 3.3056, 3.2674, 2.9670, 2.9514, 2.8785, 2.8299, 2.7656, 2.7257, 2.6754, 2.6267 and 2.5139 respectively.

4.8.12 Franchisor's opinion on Conflicts

The responses given by Franchisor's are captured in the below Table 4.17.

Table 4.17: Descriptive Statistics For Franchisor's opinion on Conflicts

Sr.No.	Parameter	No.of Respondents	Mean	Standard Deviation
1	Lack of Support	115	1.6348	1.6297
2	Communication Issues	115	1.7218	1.9827
3	Misinterpretation of Issues	115	1.3739	1.6007
4	Compliance with the conditions of Agreement	115	1.2783	1.6226
5	Training Issues	115	1.7566	2.1333
6	Territory Issues	115	1.2609	1.6985
7	Maintenance of Quality Standards	115	1.7044	2.0966
8	Marketing Issues	115	1.3218	1.6493
9	Profit Margins	115	1.2696	1.6609
10	Stocks & Supply Issues	115	1.6174	1.7320
11	Fee Remittance Issues	115	1.4087	1.5787
12	Excessive Control Issues	115	1.4522	1.4514
	Valid N (List wise)	115		

Source: Primary Data

Franchisors have felt that the Training issues is the least frequent with highest mean value 1.7566 and standard deviation of 2.1333, followed by Communications issues, Maintenance of Quality Standards, Lack of support, Stock & Supply issues, Excessive Control issues, Fee Remittances issues, Misinterpretations of Issues, Marketing Issues, Compliance with the Conditions of Agreement, Profit Margins and finally Territory Issues with a mean value of 1.7218, 1.7044, 1.6348, 1.6174, 1.4522, 1.4087, 1.3739, 1.3218, 1.2783, 1.2696 and 1.2609 respectively.

4.8.13 T-TEST ON CONFLICT PARAMETERS

t-Test was performed on every parameter under Conflicts category. Data is collected from two samples i.e. Franchisees and Franchisors, who were asked to state their opinion on various parameters on Likert scale. The details of these t-Test on conflict parameters are given as follows.

1.Lack of support: In order to find out whether there is any difference of opinion about the Lack of support between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.18.

Table 4.18: t-Test: Lack of support

Sr.No.	t-Test Parameter	Lack of Support (Franchisee’s Opinion on Conflicts)	Lack of Support (Franchisor’s Opinion on Conflicts)
1	Mean	2.6754	1.6348
2	Standard Deviation	1.7213	1.6297
3	Variance	2.9627	2.6558
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
8	TStat	5.9704	
9	P(T<=t) one-tail	1.8947E-9	
10	t Critical one-tail	1.6471	
11	P(T<=t) two-tail	3.7894E-9	
12	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3a H₀: There is no significant difference of opinion about the Lack of support between the franchisees and franchisors.

Hypothesis No.3a H₁: There is a significant difference of opinion about the Lack of support between the franchisees and franchisors.

The t-Test for Lack of support shows Value of 5.9704 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3a H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3a H₀ is rejected** at 99% confidence level.

Therefore it is inferred that there is a significant difference of opinion about the Lack of support between the franchisees and franchisors.

2. Communication Issues: In order to find out whether there is any difference of opinion about the Communication Issues between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.19.

Table 4.19: t-Test: Communication Issues

Sr.No.	t-Test Parameter	Communication Issues (Franchisee’s Opinion on Conflicts)	Communication Issues (Franchisor’s Opinion on Conflicts)
1	Mean	2.9670	1.7218
2	Standard Deviation	1.7837	1.9827
3	Variance	3.1817	3.9310
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	6.7056	
8	P(T<=t) one-tail	2.09097E-11	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	4.18194E-11	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis N o . 3 b H₀: There is no significant difference of opinion about the Communication Issues between the franchisees and franchisors.

Hypothesis N o . 3 b H₁: There is a significant difference of opinion about the Communication Issues between the franchisees and franchisors.

The t-Test for Communication problem has a value of 6.7056 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3b H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3b H₀ is rejected** at 99% confidence level.

Therefore it is inferred that there is a significant difference of opinion about the Communication Issues between the franchisees and franchisors.

3. Misrepresentation of issues: In order to find out whether there is any difference of opinion about the Misrepresentation of issues between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.20.

Table 4.20: t-Test: Communication Issues

Sr.No.	t-Test Parameter	Misinterpretation of Issues (Franchisee’s Opinion on Conflicts)	Misinterpretation of Issues (Franchisor’s Opinion on Conflicts)
1	Mean	3.3732	1.3739
2	Standard Deviation	2.8839	1.6007
3	Variance	8.3169	2.5622
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	9.203605	
8	P(T<=t) one-tail	7.2131	
9	t Critical one-tail	0.72254E-12	
10	P(T<=t) two-tail	1.6471	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No. 3 c H₀: There is no significant difference of opinion about the Misrepresentation of issues between the franchisees and franchisors.

Hypothesis No. 3 c H₁: There is a significant difference of opinion about the Misrepresentation of issues between the franchisees and franchisors.

The t-Test for Misrepresentation of issues has a value of 9.203605 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3c H0 is rejected and as $p <$ means that the **null Hypothesis no. 3c H0 is rejected** at 99% confidence level.

Therefore it is inferred that there is a significant difference of opinion about the Misrepresentation of issues between the franchisees and franchisors.

4. Compliance with the Conditions of the agreement: In order to find out whether there is any difference of opinion about the Compliance with the Conditions of the agreement between the franchisees and franchisors the “t-Test” was conducted and the results are given in the following Table 4.21.

Table 4.21: t-Test: Compliance with the Conditions of the agreement

Sr.No.	t-Test Parameter	Compliance with the conditions of Agreement (Franchisee’s Opinion on Conflicts)	Compliance with the conditions of Agreement (Franchisor’s Opinion on Conflicts)
1	Mean	2.8299	1.2783
2	Standard Deviation	1.6561	1.6226
3	Variance	2.7426	2.6329
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	9.203605	
8	P(T<=t) one-tail	0.00000	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	0.00000	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3d H0: There is no significant difference of opinion about the Compliance with the Conditions of the agreement between the franchisees and franchisors.

Hypothesis No.3d H1: There is significant difference of opinion about the Compliance with the Conditions of the agreement between the franchisees and franchisors.

The t-Test for Compliance with the Conditions of the agreement has a value of 9.203605 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3d H0 is rejected and as $p < 0.01$ means that the **null Hypothesis no.3d H0 is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Compliance with the Conditions of the agreement between the franchisees and franchisors.**

5. Training Issues: In order to find out whether there is any difference of opinion about the Training Issues between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.22.

Table 4.22: t-Test: Training Issues

Sr.No.	t-Test Parameter	Training Issues (Franchisee’s Opinion on Conflicts)	Training Issues (Franchisor’s Opinion on Conflicts)
1	Mean	3.2674	1.7566
2	Standard Deviation	2.7054	2.1333
3	Variance	7.3190	4.5510
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	5.6471	
8	P(T<=t) one-tail	1.19313E-8	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	2.3862 E-8	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3e H₀: There is no significant difference of opinion about the Training Issues between the franchisees and franchisors.

Hypothesis No.3e H₁: There is significant difference of opinion about the Training Issues between the franchisees and franchisors.

The t-Test for Training Issues has a value of 5.6471 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3e H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3e H₀ is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Training Issues between the franchisees and franchisors.**

6. Territory issues: In order to find out whether there is any difference of opinion about the Territory issues between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.23.

Table 4.23: t-Test: Territory Issues

Sr.No.	t-Test Parameter	Territory Issues (Franchisee’s Opinion on Conflicts)	Territory Issues (Franchisor’s Opinion on Conflicts)
1	Mean	2.6267	1.2609
2	Standard Deviation	1.7589	1.6985
3	Variance	3.0936	2.8850
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	7.6455	
8	P(T<=t) one-tail	3.50831E-14	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	7.01661E-14	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3f H₀: There is no significant difference of opinion about the Territory issues between the franchisees and franchisors.

Hypothesis No.3f H₁: There is a significant difference of opinion about the Territory issues between the franchisees and franchisors.

The t-Test for Territory issues has a value of 7.6455 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3f H₀ is rejected and as $p < 0.01$ means that **the null Hypothesis no.3f H₀ is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about Territory issues between the franchisees and franchisors.**

7. Maintenance of Quality Standards: In order to find out whether there is any difference of opinion about the Maintenance of Quality Standards between the franchisees and franchisors the “t-Test” was conducted and the results are given in the following Table 4.24.

Table 4.24: t-Test: Maintenance of Quality Standards

Sr.No.	t-Test Parameter	Maintenance of Quality Standards (Franchisee’s Opinion on Conflicts)	Maintenance of Quality Standards (Franchisor’s Opinion on Conflicts)
1	Mean	2.7656	1.7044
2	Standard Deviation	1.6814	2.0966
3	Variance	2.8272	4.3959
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	5.9139	
8	P(T<=t) one-tail	2.62971E-9	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	5.25941E-9	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No. 3 H₀: There is no significant difference of opinion about the Maintenance of Quality Standards between the franchisees and franchisors.

Hypothesis No. 3 H₁: There is significant difference of opinion about the Maintenance of Quality Standards between the franchisees and franchisors.

The t-Test for Communication problem has a value of 5.9139 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3g H₀ is rejected and as $p < 0.01$ means that the null Hypothesis no.3g H₀ is rejected at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Maintenance of Quality Standards between the franchisees and franchisors.**

8. Marketing issues: In order to find out whether there is any difference of opinion about the marketing issues between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.25.

Table 4.25: t-Test: Marketing Issues

Sr.No.	t-Test Parameter	Marketing Issues (Franchisee’s Opinion on Conflicts)	Marketing Issues (Franchisor’s Opinion on Conflicts)
1	Mean	2.8785	1.3218
2	Standard Deviation	1.5613	1.6493
3	Variance	2.4377	2.7201
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	Df	689	
7	TStat	9.6697	
8	P(T<=t) one-tail	0.00000	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	0.00000	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3h H₀: There is no significant difference of opinion about the Marketing issues between the franchisees and franchisors.

Hypothesis No.3h H₁: There is significant difference of opinion about the Marketing issues between the franchisees and franchisors.

The t-Test for marketing issues has a value of 9.6697 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3h H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3h H₀ is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Marketing issues between the franchisees and franchisors.**

9. Profit margins: In order to find out whether there is any difference of opinion about the Profit margins between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.26.

Table 4.26: t-Test: Profit Margins

Sr.No.	t-Test Parameter	Profit Margins (Franchisee’s Opinion on Conflicts)	Profit Margins (Franchisor’s Opinion on Conflicts)
1	Mean	2.9514	1.2696
2	Standard Deviation	2.0881	1.6609
3	Variance	4.3603	2.7586
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	8.1369	
8	P(T<=t) one-tail	0.99920E-15	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	1.99840E-15	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3i H₀: There is no significant difference of opinion about the Profit margins between the franchisees and franchisors.

Hypothesis No.3i H₁: There is a significant difference of opinion about the Profit margins between the franchisees and franchisors.

The t-Test for Profit margins has a value of 8.1369 which is greater than the Table value of 1.9634 means that the null Hypothesis 3i H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3i H₀ is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Profit margins between the franchisees and franchisors.**

10. Stock & Supply Issues: In order to find out whether there is any difference of opinion about the Stock & Supply Issues between the franchisees and franchisors the “t-Test” was conducted and the results are given in the following Table 4.27.

Table 4.27: t-Test: Stock & Supply Issues

Sr.No.	t-Test Parameter	Stock & Supply Issues (Franchisee’s Opinion on Conflicts)	Stock & Supply Issues (Franchisor’s Opinion on Conflicts)
1	Mean	2.5139	1.6174
2	Standard Deviation	1.8430	1.7320
3	Variance	3.3967	2.9997
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	4.8093	
8	P(T<=t) one-tail	9.30500E-7	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	18.61000E-7	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3j H0: There is no significant difference of opinion about the Stock & Supply Issues between the franchisees and franchisors.

Hypothesis No.3j H1: There is a significant difference of opinion about the Stock & Supply Issues between the franchisees and franchisors.

The t-Test for Stock & Supply Issues has a value of 4.8093 which is greater than the Table value of 1.9634 means that the null Hypothesis no. 3j H0 is rejected and as $p < 0.01$ means that the **null Hypothesis no.3j H0 is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Stock & Supply Issues between the franchisees and franchisors.**

11. Fee remittances: In order to find out whether there is any difference of opinion about the Fee remittances between the franchisees and franchisors the “t-Test” was conducted and the results are given in the following Table 4.28.

Table 4.28: t-Test: Fee Remittances

Sr.No.	t-Test Parameter	Fee Remittances (Franchisee’s Opinion on Conflicts)	Fee Remittances (Franchisor’s Opinion on Conflicts)
1	Mean	3.3056	1.4087
2	Standard Deviation	2.7448	1.5787
3	Variance	7.5341	2.4923
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	7.1752	
8	P(T<=t) one-tail	0.93514E-12	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	1.87028E-12	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.3k H₀: There is no significant difference of opinion about the Fee remittances between the franchisees and franchisors.

Hypothesis No.3k H₁: There is a significant difference of opinion about the Fee remittances between the franchisees and franchisors.

The t-Test for Fee remittances has value of 7.1752 which is greater than the Table value of 1.9634 means that the null Hypothesis no.3k H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.3k H₀ is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about the Fee remittances between the franchisees and franchisors.**

12. Excessive control: In order to find out whether there is any difference of opinion about the Excessive control between the franchisee and franchisors the “t-Test” was conducted and the results are given in the following Table 4.29.

Table 4.29: t-Test: Excessive Control

Sr.No.	t-Test Parameter	Excessive Control (Franchisee’s Opinion on Conflicts)	Excessive Control (Franchisor’s Opinion on Conflicts)
1	Mean	2.7257	1.4522
2	Standard Deviation	1.7252	1.4514
3	Variance	2.9763	2.1066
4	Observations	576	115
5	Hypothesized Mean Difference	0	
6	DF	689	
7	TStat	7.4087	
8	P(T<=t) one-tail	1.87073E-13	
9	t Critical one-tail	1.6471	
10	P(T<=t) two-tail	3.74145E-13	
11	t Critical two-tail	1.9634	

Source: Primary Data

Hypothesis No.31 H₀: There is no significant difference of opinion about the Excessive control between the franchisees and franchisors.

Hypothesis N o . 3 1 H₁: There is a significant difference of opinion about the Excessive control between the franchisees and franchisors.

The t-Test for Excessive control has a value of 7.4087 which is greater than the Table value of 1.9634 means that the null Hypothesis no.31 H₀ is rejected and as $p < 0.01$ means that the **null Hypothesis no.31 is rejected** at 99% confidence level. **Therefore it is inferred that there is a significant difference of opinion about Excessive control between the franchisees and franchisors.**

4.8.14 SUMMARY OF t-TEST ON CONFLICT PARAMETERS

The summary of Hypotheses about different parameters related to Conflicts is presented in the following Table 4.30.

Table 4.30: Summary on Hypotheses about conflicting parameters/ issues.

Sr.No.	Parameter	T-stat Value	Table Value	P Value	Null Hypotheses-H ₀	Alternative Hypotheses - H ₁ (Accept/Reject)
1.	Lack of support	5.9704	1.9634	P < 0.01	Rejected	Accepted
2.	Communications Issues	6.7056	1.9634	P < 0.01	Rejected	Accepted
3.	Misrepresentation of	7.2131	1.9634	P < 0.01	Rejected	Accepted
4.	Compliance with the Conditions of the agreement	9.2036	1.9634	P < 0.01	Rejected	Accepted
5.	Training Issues	5.6471	1.9634	P < 0.01	Rejected	Accepted
6.	Territory Issues	7.6455	1.9634	P < 0.01	Rejected	Accepted
7.	Maintenance of Quality Standards	5.9139	1.9634	P < 0.01	Rejected	Accepted
8.	Marketing Issues	9.6697	1.9634	P < 0.01	Rejected	Accepted
9.	Profit Margins	8.1369	1.9634	P < 0.01	Rejected	Accepted
10	Stock & Supply Issues	4.8093	1.9634	P < 0.01	Rejected	Accepted
11.	Fee remittances	7.1752	1.9634	P < 0.01	Rejected	Accepted
12.	Excessive control	7.4087	1.9634	P < 0.01	Rejected	Accepted

Source: Primary Data

All the relevant data analysis, facts and figures with reference to the Conflicting issues existing amongst the Franchisees and Franchisors in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.2 - H0: There doesn’t always exists conflicting issues between Franchisor & Franchisee.”

Thus, “Alternative Hypothesis No.2 - H1: There always exists conflicting issues between Franchisor & Franchisee.” is Accepted.

Also,

All the relevant data analysis, facts and figures with reference to the Conflicting issues existing amongst the Franchisees and Franchisors in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.3 H0: There is no significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors stands rejected

Thus, Alternative Hypothesis No.3 H1: There is a significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors is Accepted.

Also,

All the relevant data analysis, facts and figures with reference to the Conflicting issues existing amongst the Franchisees and Franchisors in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.4 – H0: Conflict resolution between Franchisor & Franchisee dos not assume a significant importance for the success & growth of Indian franchising business.”

Thus, Alternative Hypothesis No.4 - H1: Conflict resolution between Franchisor & Franchisee assumes significant importance for the success & growth of Indian franchising business.” is Accepted.

4.9 LEGAL ISSUES IN FRANCHISING

Legal environment of business refers to the system framed by Government to regulate the business according to certain defined priorities. It refers to the laws which are passed by the Government to control the country's business sector. Legal environment of the country dominates all the organizational decisions. The organizations are supposed to have knowledge of the legal policies framed by government for the business and follow the same. Non implementation of any norms under the legal framework leads to heavy fines/penalties or punishments to the concerned party.

This section gives a background related to various legal requirements of franchising business. It goes on investigating further about the regulatory framework in various foreign nations. The chapter further highlights various provisions those are being used from different laws required for having a franchise agreement/contract. This chapter provides a theoretical and also the practical viewpoint of the legal environment of franchising business.

This section highlights the significance of having regulatory framework for franchise business. It also covers the franchising law prevalent in other nations and also provides explanation about the relevant laws and regulations which are being followed in India in the context of franchising business.

4.9.1 REGULATION OF FRANCHISING ABROAD

Most of the advanced countries of the world have formulated specific laws to regulate franchising activities in their respective countries. For example, in the United States, the prospective franchisee owners must comply with the amended version of Federal Trade Commission's ("FTC") Franchise Rule, which requires franchisees to make twenty-three specified disclosures under the Franchise Disclosure Document ("FDD"), which also must be kept updated on a regular basis. Moreover, 15 states in the United States have their own laws regarding disclosures to be made by prospective franchisee owners. Similarly, franchisees in Australia must mandatorily comply with the Franchising Code of Conduct (FCC), which is regulated by the Australian Consumer and Competition Commission (ACCC).

The USA has stood out as a pioneer and leading nation for franchising business. Currently, the regulatory environment in the US is seen to be influential and also greatly supportive of the higher and healthy growth of franchising.

California which is on the west coast of USA was the pioneering state for having the very first franchise specific law that is known as 'California Franchise Investment Law, 1970'.

Thereafter, a number of other states in US have developed their own franchise specific regulations to control the franchising business activities. These laws have given a special mentioning about the ‘Disclosure Requirements’ and ‘Registration.’ In the year 1979, the Federal Trade Commission in the USA (FTC), enacted ‘Rules on Disclosure Requirements and Prohibitions Concerning Franchising and Business opportunity Ventures’. This step was seen as an initiative taken by the US government for protecting the interest of the franchisees. As per this specific Rule it is mandatory on franchisor’s part to disclose the necessary information that is required by the prospective franchisee before proceeding to make the franchise agreement. This certainly would help making informed decision for the franchisees while getting in to the franchise agreement. Furthermore, The North American Security Administration Association (NASAA) has gone for adopting an ‘Uniform Franchise Offering Circular (UFOC)’ for the regulation of the information that is required to be disclosed to the franchisees by the franchisors.

The developed nations like USA, Australia, Japan, etc. and the developing nations such as China and Malaysia have their own specific and comprehensive legislations/regulation relevant to the franchising activities in their countries. However, certain developed countries like the UK and the Singapore including the developing countries like Thailand, India and Philippines still does not have a specific law relevant for the regulation of the franchising business activities in their respective countries. The nations that does not have a specific and separate franchise law/ regulation, are entirely dependent on the multiple laws/regulation to control and regulate the franchising business activities in their countries.

4.9.2 LEGAL ISSUES IN FRANCHISING – AN INDIAN PERSPECTIVE

Some of the Acts, policies or Government regulations that relate to business in India are:

- i. The Sale of Goods Act, 1930 (Amended in 1994 and later in 2002).
- ii. The Indian Companies Act, 1956 (Amended in 2013).
- iii. Consumer Protection Act, 1986 (Amended in 2002).
- iv. Minimum Wages Act, 1948 (Amended in 2017).
- v. Agricultural Policy.
- vi. Industrial Policy.

Growth of any business, to a certain extent is based on the legal support that it gets in the country where it operates. Legal environment or the regulatory framework in a country binds the operations of concerned business and aligns it in right direction.

4.9.3 Need For Regulations In Franchising

With franchises gaining popularity, more and more people start considering franchising as a means to realize their entrepreneurial desires. This often leads to herd mentality amongst franchisors as well as franchisees, where in more and more businessmen are rushing towards franchising business. Quite often many of them start franchises even without developing and testing their franchise models. Several businessmen have used franchising as a 'get quick rich schemes' and duped hundreds of franchisees of their money. The notable among these are IT education franchisors like Zap and Wintech Computers those were in the news for quite some time. There have also been several cases where the intention of the franchisor might not have been fraudulent but their business plans failed owing to certain reasons to emerge leaving their franchisees in trouble. Besides there are many cases, where the franchisors have just failed to provide the promised support to their franchisees as a result franchisees had to suffer, though the pinch felt by them might not have been so severe. The failure could be either due to lack of appreciation of commitments or inadequate franchise support system, and sometimes due to the sheer growth of their business at an uncontrolled pace.

Franchising is a relationship between a franchisor and a franchisee which is bound by an agreement signed by both. The agreement is usually drafted by the franchisor and is expected to be followed and adhered to, by both the parties. Sometimes, it appears that the agreement is biased and favoring the franchisor.

It would be incorrect to project that all wrong things are monopolized only by the franchisors. Franchisees have their own share too. There have been innumerable cases where franchisees have not adhered to the system and procedures given by the franchisors. In several cases franchisees after taking the know-how from the franchisors have started separate businesses under different and sometimes even using similar brand names and thus cheated the franchisors. Another problem that the franchisors routinely face is non-adherence of payment schedules by the franchisees. These all examples lead to appreciation of the need for Franchise regulation in India. There exist numerous times and situations that may occur during the course of sale of franchise or thereafter that may require a due legal attention.

4.9.4 Various situations that necessitate having regulations in franchising

1. Franchisor being the maker of an agreement may make it more favorable for himself and unfavorable for the franchisee.
2. At times, a franchisor may take back the franchised unit which is doing well in a given geographical area. In this situation, the franchisee gets deprived of his rewards for hard efforts in upbringing of the unit.
3. Before selling a franchise, franchisor may promise to provide certain support system to the franchisee. However, once the franchisee starts his business operations, franchisor may not keep the promise.
4. Sometimes franchisors continue granting franchises without taking due care about the territory limits. This badly affects the market share of some franchisees.
5. Although the franchisors give clear guidelines to franchisees, not all the franchisees follow them.
6. Certain specific franchise related issues would be handled well in the court when there are specific laws of franchising rather than in absence of laws.
7. Existence of suitable laws and regulations helps to remove confusion in the minds of franchisors, franchisees and consumers.
8. Entire franchise system may become confident and fear free when specific regulations support its operations.

4.9.5 REGULATION OF FRANCHISING – INDIAN SCENARIO

In India the major hurdle in the growth of a vibrant franchising industry is the lack of any regulation and specifically the absence of a specific legislation to regulate franchising. This has kept the 'doors wide open' for fly by night operators both as a franchisor and as a franchisee. The legal system as it is very poor and tardy in India. The existing laws do not act as deterrent for a dishonest franchisor who may take a large number of franchisees to a ride and then vanish. At present only a select few countries like United States, Australia and Malaysia have specific laws dealing with franchising. It is high time that appropriate steps are taken to regulate franchising in India. Any franchising arrangement involves among others, the contract law, the laws relating to intellectual property, law of agency, company laws, laws relating to competition and taxation, laws relating to property and insurance. Besides labor laws and laws relating to transfer of technology are to be considered. In such conditions it is difficult for the

lawmakers to harmonize all the branches of the law and translate it to form a single law on franchising that is to be applicable all over India.

There is no specific law that governs franchising in India. Therefore franchise agreement and operations of franchise system of business are governed by different laws in India. These multiple laws related to business and industry form the base for regulating the franchise business in India. These are as given as follows:

1. Law of Contract

Primarily a franchise agreement is a legal contract between the franchisee and franchisor. The first and important law that applies to franchise business is the 'Indian Contract Act, 1872'. This law governs and regulates the contractual relations in India. Further, the 'Specific Relief Act, 1963' controls the remedies to breach of contract by either of the partners in franchising.

2. Intellectual Property Right Laws

The intellectual property involved in franchising includes an invention/ a patent/ a trade mark/ trade name/ trade secret/ copyright/ designs a business format/ know-how etc. As the transfer of any of these intellectual properties assumes the central core of the franchise business, laws that govern licensing of intellectual property rights forms the heart of franchise business system.

The laws related to intellectual property transfer in India are:-

- The Trade Marks Act, 1999 (Amended in 2010)
- The Copyright Act, 1957 (Amended in 2012)
- The Patent Act, 1970 (Amended in 2005)
- Geographical Indications of Goods (Registration and Protection) Act, 1999 (Amended in 2006)
- Designs Act, 2000 (Amended in 2010)

3. Consumer Protection Laws

Consumer Protection Act, 1986 (Amendment 2002) is another important law that governs the operations of franchise business. Moreover, this particular law works as two dimensional weapons when it is related to franchising by way of protecting the rights of consumers at the one hand while the franchisees on the other hand. This means Franchisor as well as franchisee needs to consider various provisions stipulated in the 'Consumer Protection Act' to be on the safer side from the ultimate consumers. In a same way, the franchisors also need to be conscious of the various needs of the franchisees as well as the consumer satisfaction.

4. Law of Competition and Unfair Trade Practices

The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 (Amendment, 1991) was enacted in India. The very purpose of bringing this Act was to prevent the accumulation of economic power, to have control on monopolies and to prevent the monopolistic, restrictive and unfair trade practices in India. Hence, it has been restricted that both the franchisors as well as the franchisees should remain away from any such monopolistic and unfair trade practices.

5. Law of Torts

Law of Torts is also enforceable for the franchised business in case as franchisors or franchisees on their part are held liable under any negligence or inappropriate Agent-Principal relationship.

6. International Business Laws

Foreign Exchange Management Act (FEMA), 1999 (Amendment, 2017) is applicable in case the franchise agreement is made at the International level. If any individual goes for taking up any international franchise, it is mandatory that the franchisee owner has to take a prior permission from the Reserve Bank of India (RBI).

7. Law of Weights and Measures

Weights and Measures Act, 1976 (Amendment, 2009) is applicable in case the franchise business involves the deals with goods being transferred by weightment or by measurement process.

8. Corporate and Securities Laws

The provision of the Companies Act, 1956 (Amendment, 2013) are applicable, in case the franchisor or franchisee is a company/firm by definition.

9. Insurance Laws

The franchised business needs to be appropriately insured and also the trade insurance needs to be given a due consideration by the parties involved. This is where the Indian Life Assurance Companies Act, 1912 and Indian Insurance Companies Act, 1928 further amended as Insurance Act, 1938 comes in to picture.

In the current age of information technology, wherein franchise business operations utilizes online mode of transactions for selling their goods or for transferring the information to the parties involved, the laws suitable for doing such E-transactions also gets involved which is known as Information Technology Act, 2000 (Amendment, 2014).

10. Industry Specific Laws

Various laws applicable to the respective industry or business shall be applied depending upon the industry and the business sector involving the concerned franchisees and the franchisors. For example, Food Safety and Standards Act, 2006 (Amended in 2017) can be applied for the food and beverage franchise. Further, Drugs and Cosmetics Act, 1940 (Amended in 2017) is applicable in case of drugs and cosmetic franchise. All such industry specific laws should be carefully examined and then applied by the parties involved in the franchised business activities.

11. Taxation Laws

Since earnings through franchise are taxable income the following tax laws are applicable.

- Income Tax Act, 1961 (Amended in 2018).
- Black Money and Imposition of Tax Act, 2015.
- Wealth-Tax Act, 1957 (Amended in 2015).

Issues related to employees and labors are handled by special labor related laws which are applicable to franchise business. Following is the list of such labor related Laws.

- The Minimum Wage Act, 1936 (Amended in 2017).
- The Apprentices Act, 1961(Amended in 2014).
- The Workmen's Compensation Act, 1923(Amended in 2017).
- The Factories Act, 1948(Amended in 2016).
- The Industrial Disputes Act, 1947(Amended in 2016).
- The Employees PF Act, 1952(Amended in 2014).
- The Employees State Insurance Act, 1948(Amended in 2017).
- The Maternity Benefit Act, 1961(Amended in 2017).
- The Payment of Bonus Act, 1965(Amended in 2015).
- The Payment of Gratuity Act, 1972(Amended in 2017).

Thus, the absence of one specific law of franchising in India makes it mandatory for the parties to franchise business to follow a set of multiple laws to form a consolidated agreement by considering all the legal issues that may crop up during the course of business.

4.9.6 THE FRANCHISE CONTRACT

Unlike many business arrangements, franchising is tightly governed by elaborate and formal contracts. Many of these contracts run on for pages of intricate legal language. It is tempting for both franchisor and franchisee to leave the contract to the lawyers and simply presume that working arrangements will arise that will govern the relationship anyway. This is a dangerous error. In franchising, the contract really matters. In particular, three sections of a franchise contract determine who will enter the arrangement and how it will function: These are:

1. **The payment system:** Particularly the lump-sum fee to enter the system, the royalty fee, and the initial investment. How these are calculated and how they may be adjusted over the contract duration is critical.
2. **The real estate:** Who holds the lease and how it may be transferred. This looks like a financing detail but is actually far more important.
3. **Termination:** Franchise arrangements anticipate a possible ending of the relationship and spell out how it would be conducted.

4.9.7 The Outline of the Franchise Contract

The International Franchise Guide of the International Herald Tribune suggests that any franchise contract should address the following points.

- Definition of terms
- Organizational structure
- Term of initial agreement
- Term of renewal
- Causes for termination or nonrenewal
- Territorial exclusivity
- Intellectual property protection
- Assignment of responsibilities
- Ability to sub franchise
- Mutual agreement on pro-forma cash flows
- Development schedule and associated penalties
- Fees, front end and ongoing
- Currency and remittance restrictions
- Remedies in case of disagreement

(Source: Moulton, Susan L., ed. (1996), International Franchise Guide, (Oakland, CA: Source Books Publications).

4.9.8 Situations where in Franchisors Enforce Their Contracts

Besides contracts there are certain other ways by which the relationship can be safeguarded. The most evident is of these is- reputation. Franchisors who take a long-term view of their businesses worry, and rightly so, about creating a bully-boy image, of being seen as harsh, oppressive, or greedy. They worry for fear of losing current franchisees or their cooperation and of being unable to attract new franchisees. Most of all, they worry about being classed as a fly-by-night franchisor who is out to make money quickly through fees and lucrative tie-in sales and then abandon its franchisees. Such franchisors are swindlers. The others, those who wish to build a business, make it a point to treat franchisees correctly and to project that they do so. Their reputation is worth more to franchisors than the short-term gains they might extract by invoking harsh contract terms to win disputes with their franchisees.

This is why franchisors do not always enforce the contracts they have so carefully written. Instead, they weigh the costs and benefits of punishing each act of noncompliance and tolerate quite a few.

The important situations when franchisors enforce the franchise contract:

Consider the scenario of a well-established franchisor that has built a network of franchisees, such a franchisor can enforce the franchise contract covering points as given below:

- a. Sourcing from a supplier of one's own choice rather than suppliers approved by the franchisor
- b. Failing to maintain the look and ambiance of the premises
- c. Violating the franchisor's standards and procedures
- d. Failing to pay advertising fees or even the franchisor's royalty

Such violations are surprisingly frequent. Evidence suggests that there are typical situations when franchisors exercise their legitimate right to enforce their contracts by punishing the franchisee. Research indicates that franchisors weigh the costs and benefits, taking into account the system-investments they need to protect their own power and the countervailing power of the franchisee and the franchise network. In particular, in their actions franchisors appear to consider what signals they are sending to franchisees, both current and potential, by what they tolerate and what they enforce. With this in mind, franchisors pick their battles rather than enforcing their contracts every time they are violated.

When it is particularly costly to enforce, franchisors are more likely to overlook a violation. This is more probable in the following circumstances.

- i. The franchisees have a very dense, tightly knit network among themselves. Hence, the franchisor fears a reaction of solidarity, with other franchisees siding with the violator.
- ii. The violator is a central player in the franchisee's network—with one exception, to be presented below.
- iii. The franchisor suffers from performance ambiguity, meaning its information systems are not sensitive enough to be sure of the situation. Such a franchisor cannot monitor well and, therefore, cannot be sure its case against the violator is strong.
- iv. The franchisor has built strong relational governance, in which the system operates on norms of solidarity, flexibility, and exchange of information. Such a franchisor does not want to risk ruining these norms, and has other ways to deal with the violation in any case.

These are the costs of enforcing the contract. But under certain circumstances the benefits of enforcement outweigh them. The franchisor is more likely to take punitive action to enforce its contract when:

- i. The violation is critical, such as missing a large royalty payment or operating a very shabby facility in a highly visible location. This is particularly the case when the franchisee is a central player in the network. Ordinarily, central players are protected (as noted above) because the franchisor fears a system backlash, but when a central player violates the contract in a critical way, franchisors choose to enforce because it sends a strong signal that the rules are the rules. Put another way, tolerating a major violation by a central player would signal other franchisees that the contract is just a piece of paper with no real weight.
- ii. The violator is a master franchisee, that is, has multiple units. Here, the risk is that the violation propagates across this franchisee's units and becomes a large-scale problem if the franchisor does not enforce the contract.

4.9.9 THE FRANCHISE AGREEMENT

When franchisee owner makes a decision of buying a franchise, it gets in to a legal relationship with that specific franchisor. At the very core of a franchise relationship is a lengthy, detailed & well-structured document called as the “Franchise Agreement”. It is a legal document that enlists the rights and obligations of the franchisor and the franchisee which are entering in to the franchise relationship. The agreement is usually made in writing and is signed by both the parties involved in the franchise business.

A franchise agreement should achieve 4 fundamental objectives as give below:

1. It should clearly set out the rules to be observed by both the parties involved in franchising arrangement.
2. Given the absence of specific franchise law/legislation, it should contractually bind the franchisor and the franchisee.
3. It should seek to protect the interests/benefits of both the franchisor and the franchisee as well as the intellectual property of the franchisor.
4. To provide clear terms and conditions which are mutually agreed upon by both Franchisor and Franchisee.

A franchise agreement is drafted by the franchisor with the help of his legal advisors. It has a specific order. The initial part of the agreement is called recital which provides information general to the business. At the end part of an agreement, there are schedules which declare the dates of remittances, franchise fee, geographical limits and rights of renewal of contract. The body of the agreement between the recital and the schedules forms the main portion of the franchise agreement. It provides the operational clauses, terms and conditions that the franchisor and franchisee are to follow.

Outline of a Franchise Agreement:

- Scope and Subject matter
- Obligations of the Franchisee
- Obligations of the Franchisor
- Consideration
- Start up support
- Operational manuals
- Layout and interior requirements
- Cost and financial requirements
- Tenure of the franchise contract
- Terms of renewal
- Territory/Geographical boundaries
- Optimum or minimum business targets
- Leases and Premises
- Marketing and Advertising support
- The Taxes which are payable
- Accounts and accounting records to be maintained.
- Intellectual property rights

- Recruitment and training of employees
- Transfer of information to and fro
- Cooling off period
- Arbitration procedure
- Termination and its Consequences
- Notice Provisions
- Negative Covenants
- Indemnification
- Governing Law
- Jurisdiction
- Any other terms & conditions which are suitable to the business

Generally, it is observed that as the franchise agreement/contract is drafted by the lawyers of franchisor, it is often seen to be more biased and favoring the franchisor alone. Therefore, the franchisee needs to take enough care at the stage of signing the agreement/contract to stay away from such risk getting involved.

4.9.10 MASTER FRANCHISE AGREEMENT

A master franchise is appointed to expand the franchise business internationally or in the far flung and remote regions. The master franchise is used where the franchisor, for reasons of geographical or operational efficiency, appoints competent franchises to carry out the tasks of the franchisor in another area. Master franchise has the responsibility to develop & grow the franchisor's business in an exclusive territory allocated to it. The responsibilities of a master franchise include recruiting sub-franchises within its area, training them and carrying out all the responsibilities of the franchisor. Unlike other franchisees a master franchisee is an agent of the franchisor and acts on behalf of the main franchisor within its territory. It is a special type of franchisee that can effectively operate as a franchisee and a pseudo-franchisor as well.

As the master franchise is given a right to appoint sub-franchise in a territory, a separate master franchise agreement that is different from the franchise agreement discussed earlier needs to be formulated. This agreement should list the master franchise's obligations to the sub-franchises in addition to its obligations towards the franchisor. The important clauses to be covered in such agreements are discussed in following section.

i. Business development plans:

Master franchise is appointed with the sole purpose of developing the franchisor's business in specified territory. The business development plan constitutes the main purpose of a master franchise agreement. Number of franchise outlets to be opened in a given period and the turnover to be achieved is to be specified. A time bound program indicating the year wise growth in the number of outlets either owned or operated by the master franchise or the sub-franchisee, along with the areas to be covered is detailed in a schedule attached to the main agreement.

ii. Recruitment of sub-franchise:

All the costs involved in selecting and recruiting the sub-franchisee are to be borne by the master franchise. While recruiting the master franchise is obliged to ensure that the sub-franchisees strictly meet the eligibility criteria set by the main franchisor.

iii. Training and support services:

The master franchise is required to provide initial and continuing training to the sub-franchisees and their staff in the manner a franchisor trains and supports the franchisees. This requires specialized manpower and infrastructure. The details of training to be provided and the infrastructure to be setup for the same are to be a part of this agreement. The operating and the training staff of the master franchise would require undergoing training with the main franchisor.

iv. Franchise fee and royalty:

The agreement should spell out whether the franchise fee and the royalty to be charged from the sub-franchise is to be fixed by the franchisor, master franchisee or jointly by them. These revenues are to be shared by the master franchise with the main franchisor. A specific clause is to establish an agreed formula to share the franchise fee and royalties. The agreement should establish if it is the responsibility of the master franchisee or the main franchisor to collect the revenues from the sub franchisees.

Besides an agreement with the main franchisor, the master franchise has to enter into specific agreements with each of its sub-franchisee. The master franchise agreement also has the same standard clauses of territory, tenure, renewal, termination, arbitration and obligations of the franchisor and the master franchisee to each other.

All the relevant data analysis, facts and figures with reference to the Legal issues in Franchising as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.5 - H0: There is no positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising.

Thus, “Alternative Hypothesis No.5 - H1: There is a positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising is Accepted.

4.9.11 PROBLEMS FACED BY FRANCHISEES DUE TO LACK OF SPECIFIC FRANCHISE LAW IN INDIA

For the principle reason of unavailability of specific Franchise Law in India, regulation of franchise system of business depends largely upon the multiple laws applicable to the franchising business activities in India. This scenario may pose a threat to the hassle-free and smoother development of the economics of franchise business in India. At the micro level, it also creates certain problems for the franchisees. With the help of primary data collected from a selected sample of 576 franchisees from Pune city & surrounding areas, an analysis has been done in the context of the various problems faced by the franchisees due to the lack of specific and comprehensive franchise law in India. Further, it is also assumed that these problems may affect the satisfaction level of franchisees towards the franchised system of business.

A specific hypothesis has been formulated to test whether these problems lead to franchisees’ dissatisfaction on the franchise business system. The hypothesis is as mentioned below:

Hypothesis No.6 – H0: Problems faced by franchisees due to lack of specific franchise law in India does not have a significant impact on the satisfaction of franchisees.

The above null hypothesis is tested using Regression Analysis. However, prior to proceeding with using Regression analysis, an Exploratory Factor Analysis (EFA) had been done on 16 variables. These 16 variables, which are 16 items with 5 point Likert scale are the problems that the franchisees faces due to the lack of specific franchise law in India. Exploratory Factor Analysis (EFA) was used to obtain the factors which represents the most prominent problems faced by the franchisees in Pune & surrounding areas due to lack of specific franchise law in India. These derived factors are considered as ‘independent

variables’ and a variable named ‘franchisee dissatisfaction’ is termed as a ‘dependent variable’ in Regression Analysis to test the Hypothesis No.6-H0. The value of KMO Measure of Sampling Adequacy is found to be 0.789 while carrying out the Exploratory Factor Analysis (EFA). This test is done to make sure whether the selected sample size for the research study is sufficient enough or adequate for further processing. Any higher value above the value of 0.700 is assumed to be an acceptable value and thus further confirms that sample size selected is adequate. The value obtained from this KMO test further confirms that the sample is sufficiently enough for carrying out an EFA study. In a similar way the data which has been used to test this specific hypothesis involves a total of 17 variables (16 used in EFA study and 1 in Regression analysis study as a dependent variable) which were subjected to test for reliability using the ‘Cronbach’s Alpha Test of Reliability’. The value of Cronbach’s Alpha Test is obtained as 0.841 which clearly confirms that this data is highly reliable for the study. Any Cronbach’s Alpha Test value that is above than 0.700, is assumed to be an acceptable value, thus showing the reliability of the data. The results of Exploratory Factor Analysis are given in Table 4.31 as follows:

Table 4.31: Problems Faced by Franchisees due to Lack of Specific Franchise Law in India

Problems Faced By The Franchisees	Derived Prominent Problems			
	Legal Problems	Relational Problems	Business Problems	Trust & Faith Problems
Feels that it is Tedious To Draft Franchise Agreement	0.812			
Specific Problems not Handled Properly	0.665			
Delay In Starting up of Unit	0.527			
Difficult To Handle Certain issues In Court	0.677			
Non-Cooperation by Franchisor		0.779		
Feels Confused Whom To Approach		0.604		
Feels Neglected by the Franchisor		0.552		
Dissatisfied With Franchised Relations		0.598		
Having Negative Impact on Growth			0.758	
Feels Biased to the Franchisor			0.565	
Feeling of Helplessness			0.549	

Difficulties Faced during Operations of Unit			0.678	
Feels there is no platform/authority to address disputes.			0.523	
Doubtful about Terms Of Franchise Agreement				0.894
Feeling of Insecurity In Mind				0.688
Having Loose Trust In Franchisor				0.854
Eigen Values	2.666	2.255	2.378	2.232
Percentage Variance	16.665	14.096	14.862	13.947
Percentage Cumulative Variance	16.665	45.623	31.527	59.570

Source: Primary Data

As seen in the above Table 4.31, four factors have been derived from 16 variables used in the EFA analysis. The four factors which are thus derived have been given suitable names as follows:

1. Legal Problems
2. Relational Problems
3. Business Problems
4. Trust & Faith Problems

Factor 1: Legal Problems.

Legal Problems comprises of 4 elements which states four problems faced by the franchisees due to the lack of franchise law in India. They are closely associated with each other, and thus form an integral part of the first factor named as “Legal Problems”.

The components of **Legal Problems** are:

1. Franchisees feel that it is tedious to draft the franchise agreement because of the applicability of multiple laws in India.
2. Specific problems which are related only with franchising cannot be handled in court.
3. Since one has to rely completely on applicable multiple laws, starting up of franchise unit gets delayed.
4. Franchisees feel that since specific law does not exist for franchise regulation in India, it becomes very difficult to handle certain issues in the courts.

Factor 2: Relational Problems:

Relational problems are derived from four problems closely related with franchisor-franchisee relations and hence these are termed as “Relational Problems” which comprises following components:

The components of **Relational Problems** are:

1. Franchisees feel that the Franchisor does not co-operate with the franchisees.
2. Franchisees get confused as to whom to approach in the instances of any mistreating to them by the franchisor.
3. Franchisees feel that they are neglected by the franchisors.
4. Franchisees are dissatisfied with the type of franchisor relations they are in to in the franchised business.

Factor 3: Business Problems:

Business Problems are obtained through EFA and comprises five problems faced by the franchisees due to the lack of specific franchise law in India. This factor is termed as “Business Problems” and comprises of following issues that a franchisee may come across:

The Components of **Business Problems** are:

1. Franchisees feel that due to the lack of regulatory framework in India, there is certainly a negative impact on the growth of the franchise industry.
2. They feel the agreement favors the only the franchisor and it’s biased towards the interest of the franchisor.
3. Franchisees feel helplessness as there are no proper regulations to protect their interests.
4. Franchisees face many difficulties in the regular business operations of franchised unit.
5. Franchisees feel that there is no platform/ authority where they can comfort themselves in case of disputes.

Factor 4: Trust and Faith Problems:

Trust and Faith problems comprises three elements and are named as “Trust and Faith Problems” as mentioned given below:

The Components of **Trust and Faith Problems**:

1. Franchisees feel doubtful about the authenticity of the agreement as their own involvement in drafting the franchise agreement is negligible.
2. There exists a sort of insecurity in their mind constantly.
3. They slowly tend to lose trust upon the franchisor.

Thus from the results of an Exploratory Factor Analysis (EFA), a total of 16 variables are reduced and compressed into 4 major factors. These four factors combined together, explains the total variance of 59.570% which is considerably acceptable since it is more than 50 %. All the derived factors are found to be having Eigen values greater than 1.

Further, a Regression model is specified to test the **Hypothesis No.6-H0**. The Regression analysis is done using the four factors derived from Exploratory Factor Analysis (EFA). The factors namely, ‘Legal problems’, ‘Relational Problems’, ‘Business problems’ and ‘Trust and Faith’ problems are considered as independent factors which influences a dependent variable called ‘Dissatisfaction of Franchisee towards franchise system’. The results of Regression have been presented in Table 4.32 as given below.

Table 4.32 : Regression Analysis of Relationship between Problems Faced by Franchisee due to Lack of Franchise Law in India on the Dissatisfaction

Regression Analysis of Relationship between Problems Faced by Franchisee due to Lack of Franchise Law in India on the Dissatisfaction of Franchisee.			
Independent Variables	Beta Coefficient	t- Test Value	P-Value
Legal Problems	0.603	10.919	0.000
Relational Problems	0.177	3.149	0.002
Business Problems	0.139	2.537	0.012
Trust and Faith Problems	0.046	0.801	0.428
Constant			0.000
R Square			0.416
Adjusted R Square			0.403
F Test Value			34.073
P Value			0.000

Source: Primary Data

From the above mentioned Table 4.32 of the regression analysis, it is clear that **the Hypothesis No.6- H0 is rejected** since the 'P-Value' that is obtained is significant at the 5 % significance level. The calculated 'R Square' is found to be 0.416 and 'Adjusted R Square' is found to be 0.403. This means that the model is explained to the extent of close to 40.0%. Further, one can understand the impact that each factor makes on the dissatisfaction of franchisee from the coefficient values given in the above table.

With a significant constant value, Legal problems, Relational Problems and Business problems are also found to be significant factors at 5 % level of significance. However, the Trust and Faith problems have been found to be insignificant factors.

Further all the factors are having a positive impact on the dissatisfaction of franchisee i.e. if there is an increase in the Legal/Relational/Business problems there will be significant increase in the level of dissatisfaction of the franchisee towards the franchised business. The positive impact of problems faced by franchisee on their level of satisfaction can be noted from the standardized Beta coefficient values shown in Table 4.32 above.

Thus, Hypothesis No.6- H0: Problems faced by franchisees due to lack of specific franchise law in India does not have a significant impact on the satisfaction of franchisees stands Rejected with respect to the Legal problems, Relational problems and Business problems. However, it is Accepted with respect to the Trust and Faith problems.

If presented in the form of an equation, the regression equation would be as under:

$$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3$$

Franchisee Dissatisfaction = 4.614 + 0.390 (Legal Problems) + 0.111 (Relational Problems) + 0.089 (Business Problems)

4.9.12 NEED FOR SPECIFIC FRANCHISE LAW IN INDIA

Since there are numerous reasons which actually contributes to the problems faced by both the parties in the franchised business there is a strong need to have a specific and comprehensive franchise law to regulate the franchised business activities in India.

The present study has made an attempt to prove that India needs its own specific and comprehensive franchise law rather than depending upon multiple laws and their relevant provisions. This has been done by way of testing a hypothesis for which a reliable data

from selected franchisees from Pune city and surrounding areas has been collected and analyzed. The hypothesis formulated in this context is as mentioned below:

Hypothesis No.7 - H0: There is no significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India.

To test the above mentioned null hypothesis, a regression analysis was done with two independent variables namely, ‘Inadequate state of franchise law in India’ and ‘Problems faced due to inadequate franchise laws in India’. These two independent variables were regressed with a dependent variable ‘need for specific franchise law in India’. The results of the regression analysis used to test **Hypothesis No.7- H0** are shown in Table 4.49 as follows.

Table 4.49: Regression Analysis showing Need for Specific Franchise Law in India

Dependent Variable : Need for Specific Franchise Law in India			
Independent Variables	Beta Coefficient	t- Test Value	P -Value
Inadequate state of Franchise Law in India	0.141	2.719	0.006
Problems faced due to inadequate Franchise Law in India	0.697	13.609	0.000
	Constant	0.000	
	R Square	0.520	
	Adjusted R Square	0.510	
	F Test Value	96.031	
	P- Value	0.000	

Source: Primary Data

The result of this regression analysis has shown a significant ‘P Value’ where the ‘R Square’ was 0.520 and adjusted ‘R Square’ was 0.510 and both the variables is found to be significantly influencing the need for specific franchise law in India. It has been found from the analysis results that both the variables are significant at 5 % significance level.

If presented in the form of an equation, the relationship among the variables would be given as follows:

$$Y = \alpha + B_1X_1 + B_2X_2$$

Need for Specific Franchise Law in India = 2.696 + 0.101 (Inadequate state of Franchise Law in India) + 0.531 (Problems faced due to inadequate Franchise Law in India).

Therefore, the Hypothesis No.7-H0 is thus rejected.

Thus, the alternative Hypothesis No.7-H1:There is a significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India is Accepted.

4.10 SUCCESS & FAILURES ANALYSIS IN FRANCHISING SYSTEM

There is nothing more difficult to deal with than failure, especially for a franchise business. For franchises, the failure of their business means more than just the loss of their investment. It may also mean the loss of their livelihood. But business failure is normal, even in franchising. And, anyone who expects that by becoming a franchisee they eliminate the risk of failure is being unrealistic.

Failure brings with it all of the emotional stages of loss including embarrassment, helplessness, and anger. Regardless of whether it is warranted, some of the anger franchisees feel will naturally be directed toward the franchisor and may even result in undesirable litigations.

In some larger franchise systems, the loss of a single location may be so immaterial that it will go almost unnoticed, while at the same time in smaller systems the loss of a single franchise could be potentially devastating. The failure of a single franchise is not going to be felt in the same personal way for any franchisor as it is for the franchisee.

Generally it is seen that franchises have lower failure rates than a stand-alone business. The reasons include the proven methods and support that franchisors provide to new franchisees. However, there is no accurate measurement of franchise failures compared to solo entrepreneurs. Any business could close its doors, of course, but understanding the reasons for failure helps reduce the chance that it will happen. In franchising, weakness can occur on either side of the franchisor-franchisee relationship that results in a failed franchisee. Franchisee failures do happen, unfortunately, and the failure is usually due to one or more of these reasons as mentioned below:

4.10.1 Failure rate in franchising

There are no reliable statistics on failures happening in franchising business. Most of the studies about franchise success that you find cited so far are old and inaccurate, and no one in franchising should be citing them. Many of the studies about the success rate in franchising included only those franchisors then in existence, and the franchisees of defunct systems were never even counted. Even the default rates of the Small Business Association (SBA) that some

cite are not a good indication of success or failure in franchising either. The SBA does try to limit default by lending only to franchises that have a proven track record.

To compound the problem further, no one has ever come up with a universally accepted definition of franchise failure. Some franchisees may simply have retired or decided to find a new career. On the other hand, in some studies, the franchise leaving the franchise system before the end of the term was not counted as a failure, because they sold the business and the location had not closed its doors.

Regardless of the cause and regardless of whether a franchisor's loss is within some mythical franchise industry average, the loss of any single franchisee-owned location should be viewed with concern by the franchisor. It is also an opportunity to begin to understand the reasons for the failure and take the necessary actions to improve the franchise system's performance.

Overall, the fact remains that the Franchising industry has considerable failure rates. Various estimates have it that some three quarters of the hundreds of franchisors launched in the 1980s in the United States survived fewer than ten years. For every high-profile franchisor like McDonald's, which makes franchisees wealthy, several business formats and brand names have gone out of business, stripping franchisees of their wealth. Many of these build to a substantial size over a number of years before collapsing. Although some of the franchisors failed in spite of their best efforts, others failed because they set out to defraud their franchisees, just as they might defraud any other investor. For example, the Malaysian and Thai governments have departments that help citizens become franchisees, and franchising appears ready to boom in India. Justifiably, these governments are concerned that their citizens will be cheated by unscrupulous would-be franchisors.

Which franchisors are most likely to survive? Evidence indicates that the success forecasts success. The older the system and the more units it has, the greater its odds of continuing to age (not going out of business). For a prospective franchisee, these established franchisors may offer the most expensive franchises, but they also carry lower risk of system failure. Evidence indicates that four years is a threshold: Franchise systems that are at least four years old have a sharply lower probability of failing than do younger systems.

4.10.2 CAUSES OF FAILURE IN FRANCHISING

Where the majority of franchisee-owned units are doing well, the failure of any particular franchise is likely due to the management of the business at the unit level. The failure to properly manage and operate any business is the principle cause of business failure. So, in franchising, where the franchisor does not have control of the day-to-day management of the

franchisee's business, here is often little the franchisor can do to prevent it.

When one examines the cause of many business failures, the seed of their destruction may also be found in the decisions made before the business even opened.

Not all franchisees succeed even if they start on the right foot. And there are some specific reasons why this happens. In the franchising world, one can see both franchisees and franchisors achieve spectacular success, and then there are some who lose it all. There is no such thing as a sure bet in any business, but franchising helps reduce the risks by providing a good brand, training and strong systems.

Given below are certain reasons due to which franchise businesses fail and which any entrepreneur should avoid.

1. Poor franchise model.

The franchisor will believe the model to be sound, but it should be kept in mind that newer models are more likely to fail than large franchisor designs. A model simply may not have been tested well enough or long enough to be reliable. It is part of the reason that newer franchise models are less expensive since the risk is greater.

2. Unrealistic business plan.

A good franchisor will help prevent this possible error. Still, high hopes are only hopes if they are not realistic and just put on paper. A solid business plan should have measurable goals that are monitored regularly (by the franchisor and the franchisee both) to keep the business on a manageable trajectory.

3. Insufficient working capital.

Businesses need working capital, and they need more of it in the first years to cover expenses while building revenue. Minimizing anticipated investment seldom creates maximum success. Fudging numbers or underestimating your net worth will tighten the financial noose. This not only means enough to get the business started but also sufficient to cover losses while the business is growing.

4. Mismatched Expectations

The biggest conflict between franchisor and franchisee is mismatch between expectations. New franchisees have very high expectations for their businesses which sometimes are not realistic. So, it is better to have a clear communication whether the terms and conditions laid down by the franchisor are acceptable to you or not.

5. Distracted and unfocused ownership.

Every franchise needs committed leadership and management to ensure its success. Many

franchisees will borrow money to pay for something outside of the business plans. Or most of the times step away and lose the pulse of business that seems to be doing well. Or fail to see when a market shift is needed because the focus is not on the business. No business is free from risk, but knowing where weak spots appear most often will help reduce the likelihood of failure. Working together, dedicated franchisors and franchisees can address these common problems and work towards a bright future together.

6. Lack of System based operations in place

The system-based franchise business doesn't just rely on talented people; it's also got clear, organized systems and rules that the staff has to follow. Creating a systems-based business can be a bit of a hassle initially but later it will be smooth and definitely more profitable.

7. Poor selection of Location/Site by the franchisee

Location is one of the most important keys to a successful franchise. Even with a leading brand, if you are inconveniently located or in an isolated area the opportunity to be as lucrative as possible diminishes.

8. Not Maintaining the SOPs

Standard Operating Procedures (SOPs) is the keyword in a franchise business. Not maintaining SOPs could lead the business to fail. If McDonald's franchisees do not follow the SOPs, they would not have achieved success.

9. Lack of training and support:

As part of researching about franchise, the prospective franchisee should make an enquiry at existing franchisees on their satisfaction level about the franchisor with training and support since it is a vital part of business sustenance and growth.

10. Inadequate Marketing Program

For any business to succeed you need to attract a solid base of customers who will buy the products or services. If the marketing program isn't successful in doing so, then you are going to have problems.

11. Tighter Profit Margins

Many franchise owners experience tightening profit margins due to external or internal problems. External problems often include a faltering economy, a natural disaster that may increase the cost of raw materials and a shortage of raw materials while internal problems arise when a company mismanages its costs or employees.

12. Exploitative mindset or high-handedness

In the world of franchising there are two kinds of franchisors:

- a. Companies that have proven effectiveness in executing a business strategy and seek to expand their business by offering franchises to other small business owners.
- b. Companies and individuals who are merely looking to make a quick buck at someone else's expense.

Successful franchises begin with a viable franchising system. Some franchisors peddle business strategies that were never able to achieve profitability in single location, let alone in multiple ones. So, before striking a deal, it is mandatory for both the franchisor and the franchisee to do some legwork to evaluate the viability of the project. Keen market survey, aggressive promotion, proper choice of location, transparency of the franchisor-franchisee relationship can then only spin a successful story. The best way to determine the right franchisor is to see whether he is receptive to the franchisee's ideas or not. A franchise can contribute well in a franchise system by making relevant suggestions, one must see whether this idea/suggestions has been given due consideration by the franchisor or not.

13. Failure to Follow the System

Franchising means running a business in a pre-set way. Moreover, for solid brands it is the proven way to success. Many times, franchisees buck the system and try to do things on their own. Though franchisees can also have excellent ideas to improve a whole system, yet if some of their ideas are completely off-track with the brand values. Franchise means following an established system. Resisting the franchisor's methods can lead to lost sales and breach of contract consequences.

14. Inadequate demands from franchisees by the franchisors

A new franchisee may not be interested in all the planning needed to create a pathway for success, but a good franchisor will demand it. From financial expectations to business plans, a franchisor might fail to demand a tight plan from prospective franchisees. Without the roadmap, a franchisee will be easily detoured.

15. Failure to Evolve

In the fast-changing world, if the franchisee is too complacent with his business to adapt to change, he will ultimately become irrelevant.

16. Unwilling to learn on Franchisee's part

The franchisor has been in the business for years, and understands the market and target consumer well which he further wants to transfer to the franchisee to make the business better. But if the franchisee is unwilling to learn, he will stop growing and it will further harm the business. Most of the franchise programs arranged by the franchisor fail to bear any fruit as the franchisee is not receptive to the suggested ways.

17. Over Promising

When it comes to franchising the last thing you ever want to be faced with is the claim by a franchisee that you “over-promised and under-delivered.” So, it’s a franchisor’s responsibility to be realistic while making commitments to franchise partners.

18. External factors

Besides the franchisor and the franchisee, certain external factors on which the franchise business depends, are responsible. If you want to take up franchising do not just look at successful stories, for, good lessons can be learnt from unsuccessful stories as well. If we analyse the contributory factors for failure of a franchise business, 25 per cent of it is caused due to external factors. External factors would mean certain situations or norms which arise over a period of time due to factors which are beyond the control of the franchisor and the franchisee. For any business to be successful the actual calculations should be done beforehand keeping in mind these factors. Some of these important external factors are as mentioned below.

i. Regulatory controls

The very important contributory cause in external factors is regulatory controls. Regulatory controls are regulatory mechanism of the government which rules the business. Government norms in a country like India keep on changing and which affect the business. Certain sectors like petroleum and telecom are highly affected by regulatory controls. For example, FDI regulations play a decisive role in governing the future of foreign players in India.

Reliance petrol pumps are a case in point. The company failed to get subsidy for petrol from the government and which was easily extended to the PSUs.

ii. Industry changes

Certain regulations or norms have such an effect on a few industries that the companies in this sector have to back out. Before investing in an industry it is important to analyse it well to get a fair deal. Major industry changes affect the businesses in a hard way. Regulations play a major role in this regard. It is better to strategize in advance so that industry changes don't leave a scar on the business.

iii. Volatile and Unfavorable Market Conditions

A number of market environment factors such as dissatisfied customers, high cost of raw materials, as well as suppliers, increase in bank interest rates, and recession in the industry are some of the factors that contribute to business failure.

a. Volatile market conditions

Changes in consumer pattern, weather conditions, combine those market conditions which turn

volatile and in turn affect the businesses related to it. Such conditions poorly affect the concerned business and at times it becomes difficult to keep afloat under such conditions. A challenging environment affected by the country's consumption pattern or change in interest rates, or employee wages are certain other factors which directly affect a business. Retail boom in many countries later on affected many big players of the market. If market conditions continue to be volatile over a prolonged period then it badly affects even the biggest players of the market. Current situation in retail and real estate is also a result of this boom. Before investing in such kind of business one should research well whether it is a temporary explosion of the market or is it long-lasting.

Dot-com, a fast emerging hot business for all the I-T companies attracted many others who were not actually from the I-T sector. Everyone wanted to ride high on the I-T boom. The I-T industry boom attracted many big and small players but soon the bubble busted. Even big players like NIIT and Aptech faced a slowdown due to the market. Every industry has its own pros and cons. The I-T slowdown was a tough lesson for all the companies. Many top-notch companies in India wanted to get into the market to gain some success.

b. Unfavorable market conditions

Kumars.com has imprinted an unhappy story on our minds. Also, a number of market environment factors such as the dissatisfied customers, high cost of raw materials, as well as suppliers, increase in bank interest rates, and recession in the industry are some of the factors that contribute to business failure.

4.10.3 ANALYSIS OF NON-OPERATIONAL / CLOSED DOWN FRANCHISEES IN PUNE CITY AND SURROUNDING AREAS

Running one's own business can be nerve-wracking for a variety of reasons, and fear of failure stops many aspiring entrepreneurs from initiating their dream venture. So, one needs to put himself/herself in the best possible position while launching a new business.

The Table 4.34, Table 4.35, Table 4.36, Table 4.37 and Table 4.38 as given below shows a detailed analysis of Non-Operational/Closed down franchisees in all the important 5 sectors of franchised business in Pune city and surrounding areas and the various reasons associated for such closures of franchisees.

Table 4.34: Retail & Lifestyle Sector – Non-Operational / Closed Down**Franchisees:**

Sr.No.	Name of the Closed Franchisee	Location in Pune	Reason for the closure of Franchisee
1	The Raymond Shop	Inorbit Mall	Franchisee closed due to Closure of Mall.
2	Crossword	Sohrab Hall, Bund Garden Road	Strategic decision by the franchisor to close the franchisee.
3	Archies Gallery	Dhole Patil Road	Low profitability
4	Bata	Inorbit Mall	Franchisee closed due to Closure of Mall
5	Manyawar	Inorbit Mall.	Franchisee closed due to Closure of Mall
6	Atelier store	Koregaon Park	Low profitability
7	Manyawar	Inorbit Mall, Nagar Road	Franchisee closed due to Closure of Mall
8	Ferns'n'Petal	Koregaon Park	Improper Location
9	Crocks	Phoenix Mall	Lack of support from franchisor
10	Geetanjali Jewels	Bund Garnden Road	Mismatched Expectations
11	Crossword	Neitesh Hub	Franchisee closed due to Closure of Mall
12	Go Colours	Shankarsheth Road, Swargate	Lack of support from franchisor
13	Firstcry.com	Near Kamala Nehru Park, Prabhat Road	Financial Problems of the Franchisee
14	U S Polo Assn	Senapati Bapat Road, Model	Personal problems of Franchisee

		Colony	
15	U S Polo Assn.	Kamala Arcade, J M Road	Strategic decision by the franchisor to close the franchisee
16	Colour Plus	Jangali Maharaj Road	Unknown Reason
17	Pantaloons	Shree Sant Eknath Nagar, Bibvewadi	Low profitability
18	Addidas	SGS Mall, Moledina Road	Mismatched Expectations
19	Allen Solly	Kothrud Pune	Unknown Reason
20	Lifestyle Store	Kalyani Nagar	Strategic decision by the franchisor to close the franchisee
21	Pepe Jeans	City One Mall, Pimpri	Low profitability
22	Global Desi	Nitesh Hub, Koregaon Park	Franchisee closed due to Closure of Mall
23	Nike	SGS Mall, Moledina Road	Personal problems of Franchisee
24	Bombay Dying	Viman Nagar	Strategic decision by the franchisor to close the franchisee
25	U S Polo Assn.	M G Road, Camp	Low profitability
26	U S Polo Assn.	Elpro City Square, Chinchwad	Unknown Reason

27	Ritu Kumar	Neitesh Hub	Franchisee closed due to Closure of Mall
28	Silver Leaf	Baner Raod, Baner	Financial Problems of the Franchisee
29	Crossword	Senapati Bapat Road	Strategic decision by the franchisor to close the franchisee
30	Crossword	MSM Mall, Khilarewadi, Karvenagar	Unknown Reason
31	Bombay Dyeing	Baner Road, Baner	Mismatched Expectations
32	Go Colors	Model Colony, Shivajinagar	Lack of support from franchisor
33	Crossword	E-Square, University Road	Mismatched Expectations
34	Bombay Dyeing	Clover Park, Viman Nagar	Low profitability
35	Crossword	Marigold Complex, Kalyaninagar	Strategic decision by the franchisor to close the franchisee
36	Go Colors	Seasons Mall, Magarpatta	Mismatched Expectations
37	Linenking	Vadgaon Budruk, Sinhgad Road	Financial Problems of the Franchisee
38	Linenking	Kharadi By- Pass, Chandangar	Unknown Reason

39	Big Bazaar	Kalyani Nagar	Strategic decision by the franchisor to close the franchisee
40	Go Colors	Nagar Road	Low profitability.

Source: Primary Data

Table 4.35: Food & Beverages Sector – Non-Operational / Closed Down

Franchisees:

Sr.No.	Name of the Closed Franchisee	Location in Pune	Reason for the closure of Franchisee
1	Jumboking	Garware Bridge, Deccan	Mismatched expectations
2	Goli Vada Pav	Upper Indira Nagar, Bibvewadi	Low profitability
3	95 Pasta N Pizza	Sanjay Park, Viman Nagar	Personal problems of Franchisee
4	Vitthal Kamat	Spine Road, Pradhikaran	Unknown Reason
5	Goli Vada Pav	Chandrabhaga Nagar, Dhankawadi	Personal problems of Franchisee
6	New Poona Bakery	Sitae Nagar, Dhayari, Sinhagad Road	Low profitability
7	Mankar Dosa	Adinath Society, Maharshi Nagar	Mismatched expectations
8	Kekiz Cake Shop	Sahakar Nagar	Improper Location

9	Papa John's	Warje Malwadi, Kothrud	Strategic decision by the franchisor to close the franchisee
10	Goli Vada Pav	Kamdhenu Estate, Hadapsar	Unknown Reason
11	New Poona Bakery	Sant Tukaram Shopping Complex	Personal problems of Franchisee
12	Chitale Bandhu Mithaiwale	Eon IT Park, Kharadi	Financial Problems of the Franchisee
13	Goli Vada Pav	Near MIT College, Paud Road.	Low profitability
14	Bakers Basket	Magarpatta City, Hadapsar	Mismatched expectations
15	Caramella's Cake Shop	Ambegaon Budruk	Improper Location
16	Goli Vada Pav	Sahwas Corner, Karvenagar	Low profitability
17	Mad Over Donuts	Qubix Business Park, Hinjewadi	Strategic decision by the franchisor to close the franchisee
18	Havmor Ice Cream	Sai Shanti Park, Porwal Road, Lohegaon	Low profitability
19	Kaka Halwai	Kalyani Nagar	Low Profitability
20	Jumboking Vada	Pragati Town, Near	Mismatched expectations

		ShivajiNagar Bus Stand	
21	Keventers Ice Cream	Eon Free Zone Road, Kharadi	Unknown Reason
22	Yewale Amrittulya	Kalewadi, Thergaon, Pimpri	Personal problems of Franchisee
23	Goli Vada Pav	Near Wisdom World School, Hadapsar	Low profitability
24	Havmor Icecream	Kalyani Nagar	Low profitability
25	New Poona Bakery	Alandi Devachi, Alandi	Mismatched expectations
26	Yewale Amruttulya	Patil Nagar, Pimpri- Chinchwad	Financial Problems of the Franchisee
27	Hot Chips	Kakade Plaza, Warje.	Personal problems of Franchisee
28	Amir Chicken & Eggs	Dhayari.	Improper Location
29	Chat Bazaar	Sapphire Chambers, Baner	Unknown Reason
30	Creamist Ice-cream	JM Road (Balgandharv Chowk)	Low profitability
31	Kaware Ice-cream	Sinhgad Road	Financial problems of the Franchisee

32	SP's Biryani	Sadashiv Peth	Personal problems of Franchisee
33	Panchavati Gaurav	Inorbit Mall	Franchisee closed due to Closure of Mall
34	Subway	Nitesh Hub, Koregaon Park.	Franchisee closed due to Closure of Mall
35	Upsouth Restaurant	Ghole Road	Low profitability
36	95 Pasta & Pizza	Inorbit Mall	Franchisee closed due to Closure of Mall
37	Papa John's	Karve Road, Kothrud	Strategic decision by the franchisor to close the franchisee
38	Kaka Halwai	Koregaon Park	Low profitability
39	Durga Non-Veg	Sadashiv Peth	Mismatched expectations
40	Jumboking	VimanNagar.	Low profitabilty
41	Baskin Robbins Ice-cream	Dhole Patil Road	Low profitability
42	Dominoz Pizza	Dhole Patil Road	Mismatched expectations
43	Amul Icecream	Dhole Patil Road	Low profitability.
44	McDonald's	University Road	Improper Location
45	KFC	Inorbit Mall	Franchisee closed due to Closure of Mall
46	Havmor Ice-cream	Narangibaug Road	Low profitability
47	Papa John's	Phoenix Mall	Strategic decision by the franchisor to close the franchisee.
48	Bread Story	Camp	Low profitability
49	Mankar Dosa	Kharadi	Mismatched expectations

50	RollsMannia	Camp	Personal problems of franchisee
51	Subway	Inorbit Mall	Franchisee closed due to Closure of Mall
52	Kaware Ice-cream	Baner	Low profitability
53	Monjinis Cake Shop	Narayan Peth	Unknown Reason
54	Café Peters	Bund Garden Road	Improper Location.
55	Rajdhani Thali	Neitesh Hub, Koregaon Park Plaza	Franchisee closed due to Closure of Mall
56	Creamstone Ice-cream	Kothrud	Low profitability
57	Premacha Chaha	Dhole Patil Road	Low profitability
58	Haldiram	Narangi baug Road.	Improper Location
59	Hot Chips	Chatushrungi, Senapati Bapat Road	Personal Problems of franchisee
60	Panchvati Gaurav	Inorbit Mall, Nagar Road	Franchisee closed due to Closure of Mall
61	Goli Vada Pav	Fergusson College Road	Personal Problems of franchisee
62	Bakers Basket	Dhole Patil Road	Low profitability
63	Kaware Ice-cream	Sinhgad Road	Financial problems of franchisee
64	Corn Club	Moledina Road	Low Profitability
65	Kailash Parbat	Inorbit Mall	Franchisee closed due to Closure of Mall
66	Rajdhani Thali	Phoenix Market City	Low Profitability

67	Domino's Pizza	Neitesh Hub, Koregaon Park	Franchisee closed due to Closure of Mall
68	Chaat Bazaar	Koregaon Park	Low Profitability
69	Bakers Basket	Dhole Patil Road	Low Profitability
70	Yewale Amruttulya	Manjri Budruk	Mismatched expectations
71	Domino's Pizza	Inorbit Mall	Franchisee closed due to Closure of Mall
72	Vithal Kamat	Bhosari, Pune	Financial Problems of the Franchisee
73	Saiba Amruttulya	Onkar Colony, Pimpri - Chinchwad	Personal problems of Franchisee
74	Dhaba Cafe	Sadashiv Peth	Mismatched expectations
75	Pappu Chaiwala	Seasons Mall	Low profitability
76	Joshi Wadewale.	Narayan Peth	Personal Problems of Franchisee.
77	Barista Cafe	Fergusson College Road Road	Low profitability
78	Baskin Robbins	Fergusson College Road	Low profitability
79	Caramella's	Ambegaon Budruk	Unknown Reason
80	Dairy Don	Gadital, Hadapsar	Mismatched expectations
81	Café Durga	Narpatgir Chowk,Somwar Peth	Low profitability

82	Yewale Amruttulya	Connaught Place Bundgarden Road.	Personal Problems of Franchisee
83	Quality Walls Swirl	Inorbit Mall	Franchisee closed due to Closure of Mall
84	Jumboking Vadapav	Tilak Road	Financial Problems of the Franchisee
85	Amul Ice Cream	Wanowri	Low profitability
86	WS Bakers	Charholi Budruk	Personal problems of Franchisee
87	Kaware Ice cream	Balewadi	Low profitability
88	Chocolate Bicklate	Azadnagar, Kothrud	Improper Location
89	Café Chokolade	Pimple Saudagar	Unknown Reason
90	Baskin Robbins	Jangali Maharaj Road	Personal problems of Franchisee
91	Cream Stone Icecream	Bibavewadi- Kondhava Road	Mismatched expectations
92	Jalebi Junction	Kharadi	Personal problems of Franchisee
93	Cheesiano Pizza	Kharadi	Financial Problems of the Franchisee
94	Juice Lounge	Clover Park, Viman Nagar	Low profitability
95	Smokin Joe's Pizza	Pool Gate, Camp	Personal problems of Franchisee
96	Kekiz The Cake Shop	Rambaug Colony,	Low profitability

		Kothrud	
97	Subway	Agarkar Nagar	Improper Location
98	Cheesiano Pizza	Blue Ridge, Hinjewadi	Unknown Reason
99	Premacha Chaha	Wagholi	Unknown Reason
100	Smokin Joe's Pizza	Ashok Vijay Complex, MG Road, Camp	Low profitability
101	Papa John's	Chatushrungi, S B Road	Strategic decision by the franchisor to close the franchisee
102	Chaat Bazaar	Sagar Arcade, Fergusson College Road	Low profitability
103	Amir Chicken & Eggs	Vadgaon Sheri	Personal problems of Franchisee
104	Papa John's	PT Gera Centre, Bund Garden Road	Strategic decision by the franchisor to close the franchisee
105	Papa John's	Senapati Bapat Road.	Strategic decision by the franchisor to close the franchisee
106	Goli Vada Pav	Magarpatta, Hadapsar	Personal problems of Franchisee
107	95 Pasta N Pizza	Baner, Pune	Low profitability
108	Papa John's	Ghole Road	Strategic decision by the franchisor to close the franchisee
109	Burger King	Amrut Chambers, FC Road	Mismatched expectations

110	Subway	Xion Mall, Hinjewadi	Strategic decision by the franchisor to close the franchisee
111	Pizza Hut	North Main Road, Koregaon Park	Mismatched expectations
112	U S Pizza	Baner-Pashan Link Road, Baner	Unknown Reason
113	Yewale Amrittulya	Manjri Road, Keshavnagar, Mundhava	Financial Problems of the Franchisee
114	Rolls Mania	Chaitraban Society, Aundh.	Low profitability

Source: Primary Data

Table 4.36: Healthcare & Beauty Sector – Non-Operational / Closed Down

Franchisees:

Sr.No.	Name of the Closed Franchisee	Location in Pune	Reason for the closure of Franchisee
1	Vision Express	Dhole Patil Road	Low profitability
2	Healthspring	Law College Road	Strategic decision by the franchisor to close the franchisee
3	P H Diagnostics	Dhole Patil Road	Improper Location
4	Gold's Gym	Viman Nagar	Personal Problems of Franchisee
5	Salon Apple	Karve Road	Lack of support from the franchisor

6	Strands Salon	Wagholi	Mismatched Expectations
7	Salon Apple	Law College Road	Personal Problems of Franchisee
8	Healthspring	Pimple Saudagar	Low profitability
9	Lakme Salon	Model Colony Shivaji Nagar	Mismatched Expectations
10	Jawed Habib Hair Espresso	Mohanwadi, Yerwada	Improper Location
11	Patanjali Aurved Store	Kumthekar Road, Sadashiv Peth	Lack of support from the franchisor
12	Jawed Habib Hair Espresso	Seasons Road, Aundh	Personal Problems of Franchisee
13	Thyrocare	Bharat Colony, Karvenagar, Kothrud	Unknown Reason
14	Dr.Lal PathLabs	Gokhale Nagar, Senapati Bapat Road.	Low profitability
15	Metropolis Healthcare Ltd	Grafficon Arcade, Dhole Patil Road	Unknown Reason
16	Dr.Lal PathLabs	Om Mahavir Society, Yerwada	Mismatched Expectations
17	Apollo White Dental	Bhandarkar	Lack of support from the franchisor

	Clinic	Raod	
18	Talwalkar's Fitness Centre.	Aundh	Unknown Reason
19	Dr. Lal PathLabs	NIBM Road, Undri	Personal Problems of Franchisee

Source: Primary Data

Table 4.37: Education Sector – Non-Operational / Closed Down Franchisees:

Sr.No.	Name of the Closed Franchisee	Location in Pune	Reason for the closure of Franchisee
1	Tree House Preschools	Fergusson College Road.	Lack of support from the franchisor
2	Speakwell English Academy	Paud Road, Kothrud.	Personal Problems of Franchisee
3	Euro Kids	Wakad.	Mismatched Expectations
4	Poddar Jumbokids Preschool	North Hadapsar, Hadapsar	Low profitability
5	Tree House Preschools	Bibvewadi	Lack of support from the franchisor
6	Euro Kids	Lohegaon	Mismatched Expectations
7	Tree House Palygroup & Preschool	Dhayari	Lack of Support from the Franchisor
8	Tansen Sangeet Vidyalaya	Koregaon Park	Personal problems of franchisee
9	Euro Kids	Ambegaon Khurd	Strategic decision by the franchisor to close the franchisee

10	Kidzee Preschool	Pune-Nashik Road, Bhosari	Personal Problems of the Franchisee
11	Tree House Palygroup & Preschool	Kondhava Road, Lulla Nagar	Low profitability
12	Euro Kids	Bhosari	Unknown Reason
13	Kidzee Preschool	Bhagirath Nagar, Hadapsar	Lack of Support from the Franchisor
14	The Learnig Curve Preschool & Daycare Centre	Balewadi	Low profitability
15	Kidzee Preschool	Kundan Gulmarg Hsg.Soc., Baner	Unknown Reason
16	Poddar Jumbokids Preschool	Handewadi Road, Hadapsar	Financial Problems of the Franchisee
17	Tree House Palygroup & Preschool	Bhavani peth	Personal Problems of the Franchisee
18	The Learnig Curve Preschool & Daycare Centre	Undri-Hadapsar Road, Mohammad wadi	Mismatched Expectations
19	Eurokids Preschool	Marketyard	Improper Location
20	Kidzee Preschool	Sun city Road, Sinhgad Road	Low profitability
21	The Learnig Curve Preschool & Daycare	Paud Road	Personal Problems of the Franchisee

	Centre		
22	Tree House Palygroup &Preschool	Bibavewadi	Lack of Support from the Franchisor
23	Kidzee Preschool	Balewadi	Strategic decision by the franchisor to close the franchisee
24	The Learnig Curve Preschool & Daycare Centre	Pradhikaran, Nigdi	Mismatched Expectations
25	Lexicon International Preschool	Pancard Club Road, Baner	Unknown Reason
26	The Learnig Curve Preschool & Daycare Centre	Magarpatta City, Hadapsar	Lack of Support from the Franchisor
27	Tree House Palygroup &Preschool	Bavdhan Nagar, Bavdhan	Lack of Support from the Franchisor
28	Tree House Palygroup &Preschool	Near Agakhan Palace, Pune-Nagar Road	Lack of Support from the Franchisor
29	The Learnig Curve Preschool & Daycare Centre	Near Telephone Exchange, Aundh	Mismatched Expectations
30	Kidzee Preschool	Dhayari, Sinhgad Road	Unknown Reason
31	Kido Safari Kids Preschool	Mundhava Road, Koregaon Park	Financial Problems of the Franchisee
32	The Learnig Curve Preschool & Daycare	Indrayani Nagar, Bhosari	Unknown Reason

	Centre		
33	UCMAS Abacus Classes	Pimple Saudagar	Improper Location
34	Gold's Gym	Satara Road	Mismatched Expectations
35	UCMAS Abacus Classes	Loni Kalbhor.	Lack of Support from the Franchisor
36	Kerala Aurvedic Centre.	Dhanori	Low profitability
37	Shanti Juniors Preschool	Bavdhan.	Personal Problems of the Franchisee
38	Abacus Classes	Nal stop, Karve Road	Unknown Reason
39	T.I.M.E. Coaching Institute	Dhole Patil Road	Low profitability
40	UCMAS Abacus Classes	Vadgaonsheri	Personal Problems of the Franchisee
41	Abacus Classes	Chikhali	Improper Location
42	The Learnig Curve Preschool & Daycare Centre	Pashan Sus Road	Personal Problems of the Franchisee
43	Abacus Classes	Kalyani Nagar	Personal Problems of the Franchisee
44	Orange Ivy Play School	Viman Nagar	Unknown Reason
45	Wonder Kidz	Moraya Colony, Chinchwad	Personal Problems of the Franchisee
46	Chate Coaching	Hadapsar Gaon,	Mismatched Expectations

	Classes	Hadapsar	
47	Orange Ivy Play School	Kharadi	Lack of Support from the Franchisor
48	Arena Animation Institute	Sadashiv Peth	Financial Problems of the Franchisee
49	T.I.M.E. Coaching Institute	Kharadi	Unknown Reason
50	Educadd	Kharadi	Financial Problems of the Franchisee
51	Rao's IIT Academy	Fergusson College Road	Unknown Reason
52	T.I.M.E. Coaching Institute	Pimple Saudagar	Low profitability
53	CADD Centre	Chandangar, Nagar Raod	Personal Problems of Franchisee.
54	Orange Ivy Play School	Kalyani Nagar	Unknown Reason

Source: Primary Data

Table 4.38: Support Service Sector – Non-Operational / Closed Down

Franchisees:

Sr.No.	Name of the Closed Franchisee	Location in Pune	Reason for the closure of Franchisee
1	DTDC Courier	Bund Garden Road	Improper Location
2	Palande courier	Tilak Road	Lack of Support from the Franchisor
3	Reliance	Nalstop, Karve	Low profitability

	Communication	Road.	
4	Shree Maruti Courier	Limayewadi, Sadashiv Peth	Mismatched Expectations
5	Airtel	Nanded Road- Shivane Link Road, Sinhgad Road	Unknown Reason
6	Airtel franchisee	Dhole Patil Road	Low profitability
7	Thomas Cook	Camp	Strategic decision by the franchisor to close the franchisee
8	Cox & Kings	Hadapsar	Low Profitability
9	Airtel	Betal Nagar, Kondhava	Personal Problems of the Franchisee
10	Tata DoComo	Furgusson Collge Road	Strategic decision by the franchisor to close the franchisee due to merger with other company
11	Airtel	East Street, Camp	Mismatched Expectations
12	Uninor	Tilak Road	Strategic decision by the franchisor to close the franchisee due to merger with other company
13	U-Clean Laundry	Narangibaug Road	Low profitability
14	H & R Block	Dhole Patil Road	Strategic decision by the franchisor to close the franchisee.
15	DTDC Courier	Bopodi	Improper Location
16	Cox & Kings	Pimple Saudagar	Low Profitability
17	JK Tyres	Gera Chambers, Boat Club Road	Low Profitability

18	Total Oil	Baner	Unknown Reason
19	Airtel	Karve Nagar	Personal Problems of the Franchisee
20	Cox & Kings	Wanowri	Low Profitability
21	Mahindra First Choice	Dapodi	Unknown Reason
22	GTPL Hathway	Ananadnagar Paud Road	Improper Location
23	Tata Sky	7 Loves Chowk, Shankarsheth Road	Low Profitability
24	Reliance My Geo	Kaspate Wasti, Wakad	Mismatched Expectations
25	Idea Cellular	Pune-Satara Road	Strategic decision by the franchisor to close the franchisee due to merger with other company
26	Tata Sky	Fergusson College Road	Financial Problems of the Franchisee
27	Tata Docomo	Hadapsar	Strategic decision by the franchisor to close the franchisee due to merger with other company
28	Reliance My Geo	Masulkar Colony, Pimpri- Chinchwad	Unknown Reason
29	Palande Courier	Wagholi	Lack of Support from the Franchisor
30	Tata DoCoMo.	Magarpatta, Hadapsar	Strategic decision by the franchisor to close the franchisee due to merger with other company
31	Vodafone-Idea	Karve Road, Kothrud	Mismatched Expectations

32	Airtel DTH	Clover Park, Viman Nagar	Low Profitability
33	Telenor	B T Kawade Road, Ghorpadi	Strategic decision by the franchisor to close the franchisee due to merger with other company
34	Trackon Courier	Mega Centre, Hadapsar	Personal Problems of the Franchisee
35	First Flight Courier	Warje Jakat Naka, Warje.	Unknown Reason
36	Reliance My Geo	Wanowri	Personal Problems of Franchisee
37	Professional Courier	Kumthekar Road, Sadashiv Peth	Improper Location
38	Vodafone – Idea Store	Golibar Maidan, Camp	Financial Problems of the Franchisee
39	Tata DoCoMo	IVY Estate Wagholi	Strategic decision by the franchisor to close the franchisee due to merger with other company
40	Makemytrip.com	P.T.Gera Centre, Bund Garden Road	Mismatched Expectations
41	Tata DoCoMo	Ramnagar, Bhosari	Strategic decision by the franchisor to close the franchisee due to merger with other company
42	Castrol Bike Zone	K K Market, Dhankawadi	Financial Problems of the Franchisee
43	Marathi Matrimony, Marriage Bureau	M G Road, Camp	Low profitability
44	Kesari Tours &	Sinhgad Road	Mismatched Expecations

	Travels		
45	Jeevansathi.com	Jangli Maharaj Road, Deccan	Mismatched Expectations
46	Veena World	Ravet, Pimpri-Chinchwad	Low Profitability
47	Tata Sky	Vakilnagar, Erandvane	Personal Problems of the Franchisee
48	Laundromat Laundry	Fatima Nagar, Wanowri	Improper Location
49	Professional Courier	Tapkir Galli, Budhwar Peth	Personal Problems of the Franchisee
50	Ruby Tours & Travels	East Street, Camp	Mismatched Expectations
51	Telenor	LBS Road	Strategic decision by the franchisor to close the franchisee due to merger with other company
52	Tata Sky	Sanjaynagar, Pashan	Personal Problems of the Franchisee
53	Thomas Cook	Lokanya Colony, Kothrud	Strategic decision by the franchisor to close the franchisee
54	Tata Sky	Seasons Road, Aundh	Low profitability

Source: Primary Data

4.10.4 STATUS OF OPERATIONAL VS. CLOSED DOWN FRANCHISEES IN PUNE & SURROUNDING AREAS

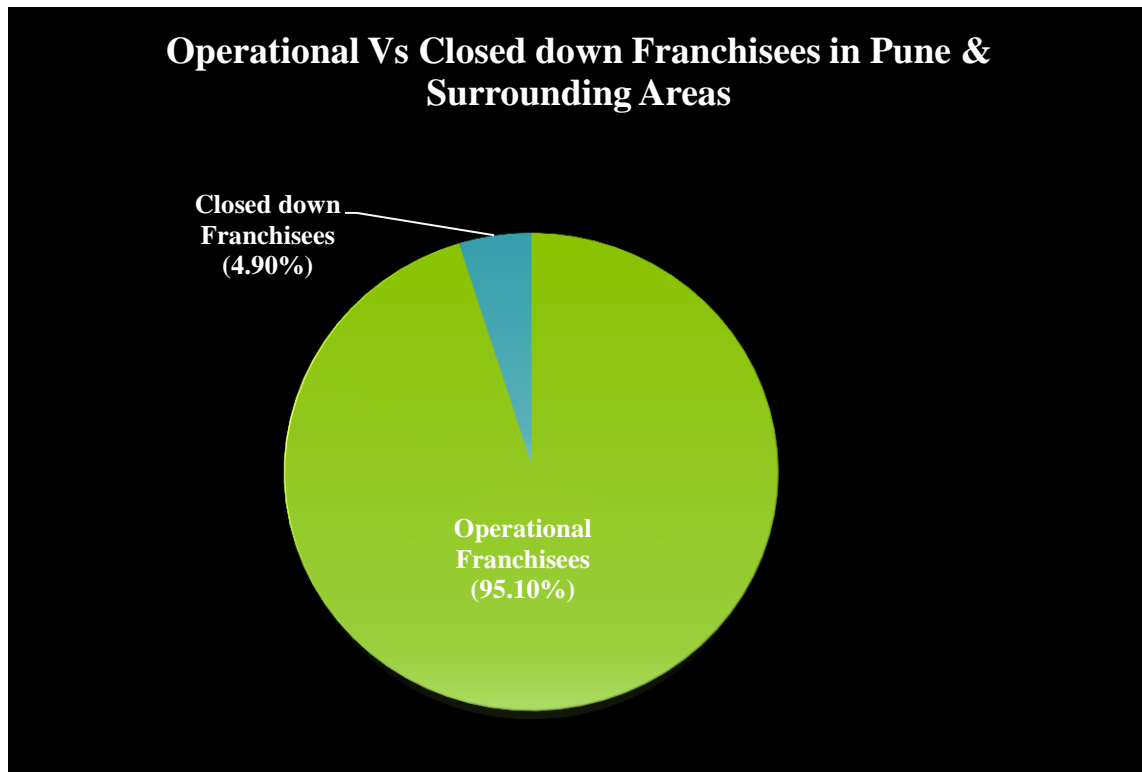
The Status of Operational Vs. Closed down Franchisees in Pune & Surrounding areas is shown in Table 4.39 and Figure 4.22 as given below.

Table 4.39: Operational Vs. Closed down Franchisees in Pune & Surrounding areas

Sr.No.	Status	Nos.	Percentage
1	Operational Franchisees	5454	95.10%
2	Closed down Franchisees	281	4.90%
	Total	5735	100%

Source: Primary Data

Figure 4.22: Operational Vs. Closed down Franchisees in Pune City & Surrounding Areas



Source: Primary Data

4.10.5 Principle reasons for the closure of Franchisees in Pune city & surrounding areas

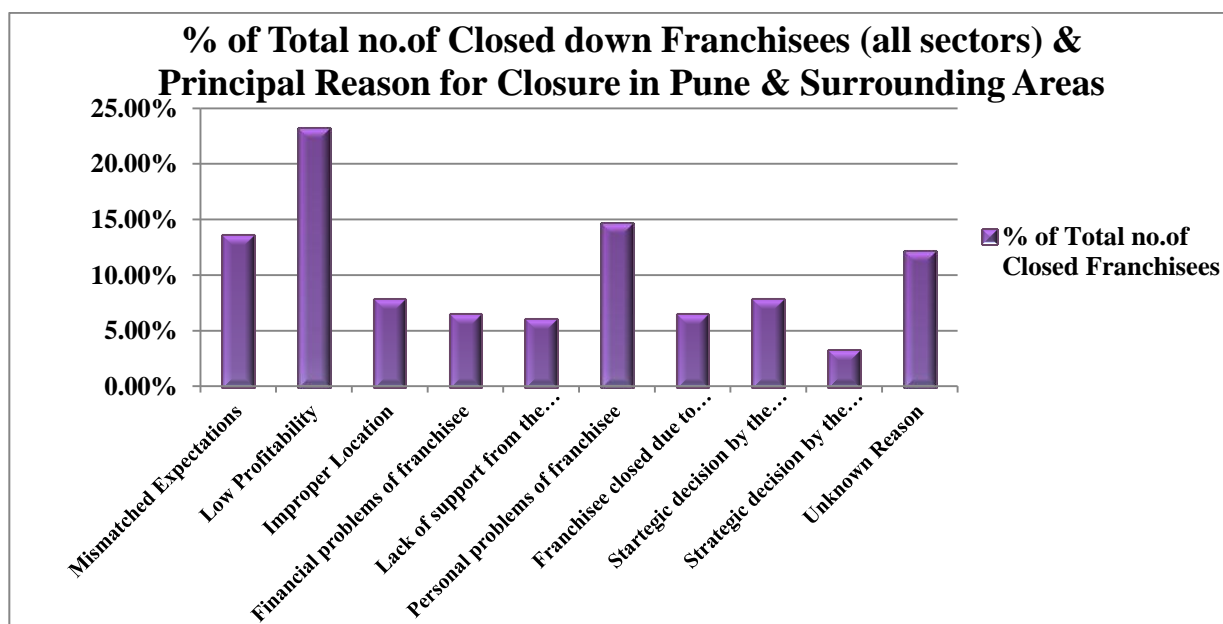
The Principle reasons for the closure of Franchisees in Pune city & surrounding areas are given in the Table 4.40 and Figure 4.23 as given below.

Table 4.40: Principle Reasons For the closure of Franchisees in Pune city & surrounding areas

Sr.No.	Principle Reason For closure of Franchisees	No.of Closed down Franchisees	% of Total no.of Closed down Franchisees
1	Mismatched Expectations	38	13.52
2	Low Profitability	65	23.13
3	Improper Location	19	7.76
4	Financial problems of franchisee	18	6.41
5	Lack of support from the franchisor	17	6.05
6	Personal problems of franchisee	41	14.59
7	Franchisee closed due to closure of Mall	18	6.41
8	Strategic decision by the franchisor to close the franchisee	22	7.83
9	Strategic decision by the franchisor to close due to merger with other company	9	3.20
10	Unknown Reason	34	12.10
	Total	281 Nos	100.00%

Source: Primary Data

Figure 4.23: % of Total no. of Closed down Franchisees (all sectors) & Principal Reasons for Closure in Pune & Surrounding Areas



Source: Primary Data

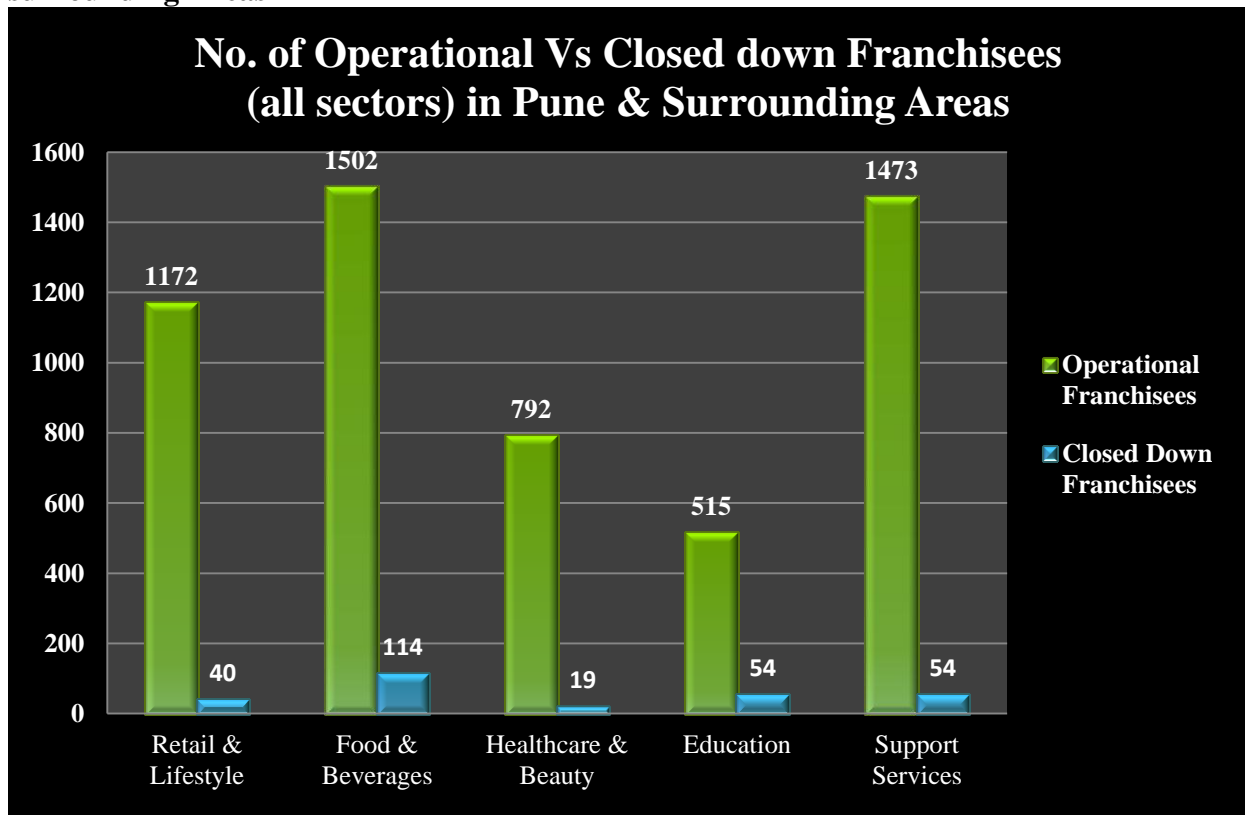
The Sub-sector wise Operational Vs. Closed down Franchisees in Pune city & Surrounding areas is shown in Table 4.41 and Figure 4.24 as given below.

Table 4.41: Operational Vs. Closed down franchisees in Pune & Surrounding Areas

Sr. No.	Franchise Sector	Operational Franchisees	Closed Down Franchisees
1	Retail & Lifestyle	1172	40
2	Food & Beverages	1502	114
3	Healthcare & Beauty	792	19
4	Education	515	54
5	Support Services	1473	54
	Total	5454	281

Source: Primary Data

Figure 4.24: No. of Operational Vs. Closed down Franchisee All sectors) in Pune & surrounding Areas



Source: Primary Data

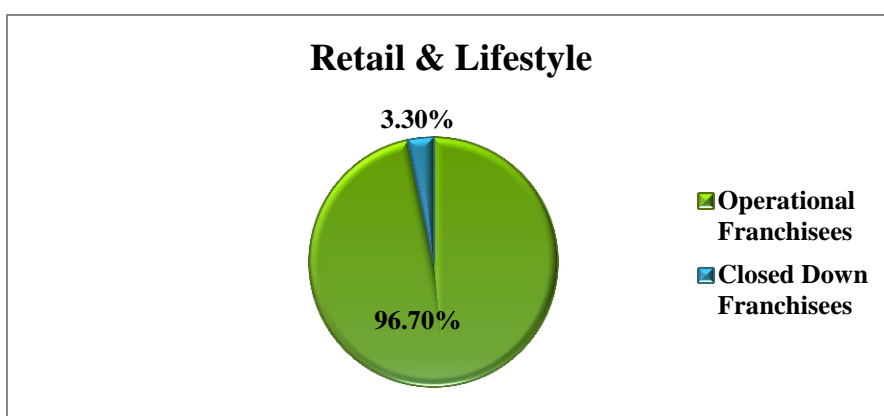
The Operational Vs. Closed down Franchisees in Retail & Lifestyle sector is shown in Table 4.42 and Figure 4.25 as given below.

Table 4.42: Retail & Lifestyle: Operational Vs. Closed down Franchisees

Franchise Sector	Operational Franchisees	Closed Down Franchisees
Retail & Lifestyle	1172	40
Percentage	96.70%	3.30%

Source: Primary Data

Figure 4.25: Retail & Lifestyle - Operational vs. Closed down Franchisees



Source: Primary Data

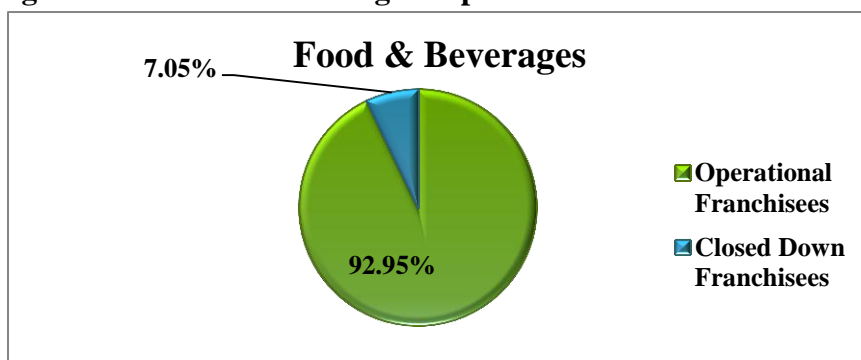
The Operational Vs. Closed down Franchisees in Food & Beverages sector is shown in Table 4.43 and Figure 4.26 as given below.

Table 4.43: Food & Beverages : Operational Vs. Closed down Franchisees

Franchise Sector	Operational Franchisees	Closed Down Franchisees
Food & Beverages	1502	114
Percentage	92.95%	7.05%

Source: Primary Data

Figure 4.26: Food & Beverages: Operational vs. Closed down Franchisees



Source: Primary Data

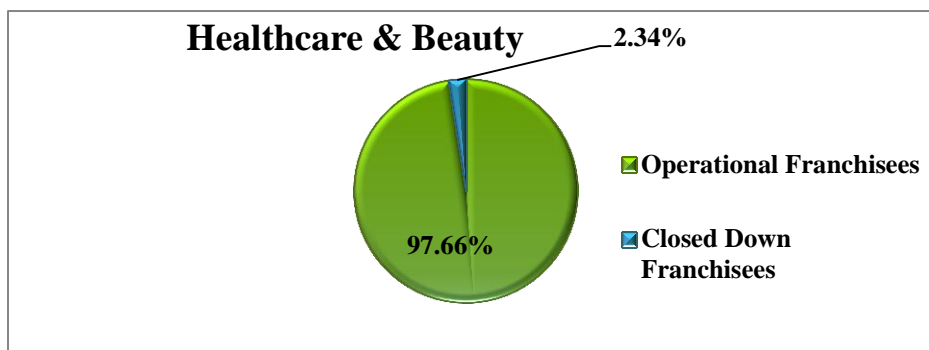
The Operational Vs. Closed down Franchisees in Healthcare & Beauty sector is shown in Table 4.44 and Figure 4.27 as given below.

Table 4.44: Healthcare & Beauty: Operational Vs. Closed down Franchises

Franchise Sector	Operational Franchisees	Closed Down Franchisees
Healthcare & Beauty	792	19
Percentage	97.66%	2.34%

Source: Primary Data

Figure 4.27: Healthcare and Beauty: Operational vs. Closed down Franchisees



Source: Primary Data

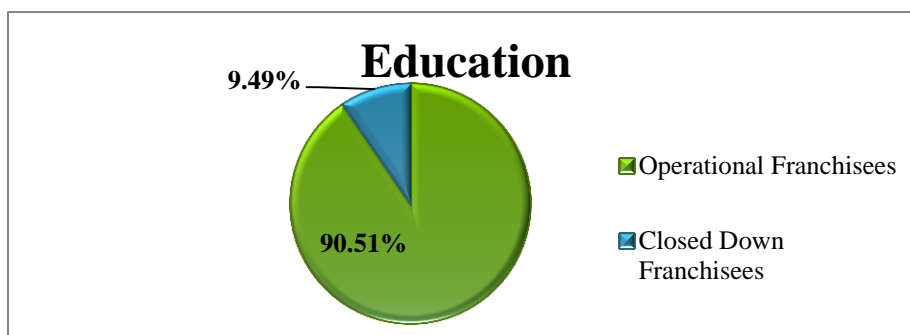
The Operational Vs. Closed down Franchisees in Education sector is shown in Table 4.45 and Figure 4.28 as given below.

Table 4.45: Education: Operational Vs. Closed down Franchises

Franchise Sector	Operational Franchisees	Closed Down Franchisees
Education	515	54
Percentage	90.51%	9.49%

Source: Primary Data

Figure 4.28: Education: Operational vs. Closed down Franchisees



Source: Primary Data

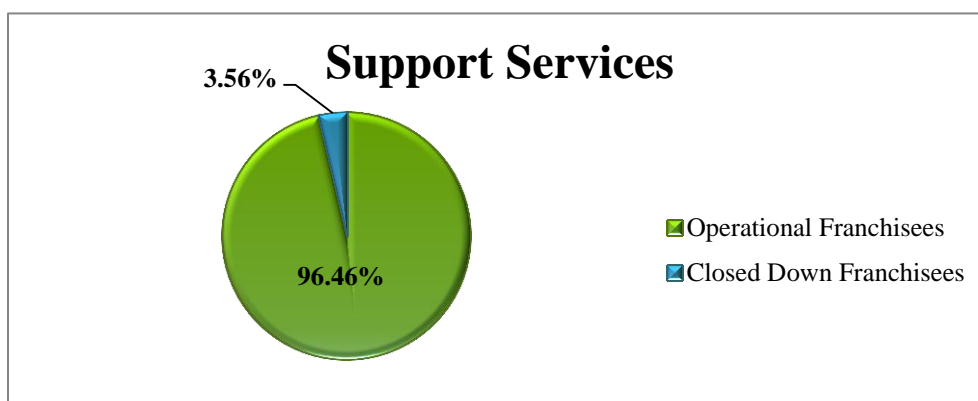
The Operational Vs. Closed down Franchisees in Support Services sector is shown in Table 4.46 and Figure 4.29 as given below.

Table 4.46: Support Services: Operational Vs. Closed down Franchisees

Franchise Sector	Operational Franchisees	Closed Down Franchisees
Support Services	1473	54
Percentage	96.46%	3.56%

Source: Primary Data

Figure 4.29: Support Services – Operational Vs. Closed down Franchisees



Source: Primary Data

4.10.6 Core Values of a Successful Franchisee

Studies have revealed that successful franchisees share a set of common core values that transcend their personality.

Fred Bernie has identified the critical characteristics that are common amongst the high - performing franchisees.

Seven critical core values of a successful franchisee, in order of importance are as mentioned below:

- i. Positive Attitude for Success
- ii. Attitude towards Employee Involvement
- iii. Strong Drive
- iv. Independence

- v. Sales Orientation
- vi. Responsiveness to Customers
- vii. Social Orientation

i. Positive Attitude for Success

The first and most important core value is the owners/ operator's attitude towards success. Individuals who believe things will work out for them and have a positive attitude towards life, have success and their business tends to do well. On the other hand people who have a tendency to always see the clouds rather than the silver lining end up doing poorly. People with negative attitudes are forever looking for reasons why things would not work out rather than looking for ways to make them work. People with negative attitude do not accept responsibility for their own success or failures. It's always somebody else's fault, and if they are a franchisee that usually translates into the blame being placed squarely on the shoulders of the franchisor.

ii. Attitude towards Employee Involvement

The 2nd most important core value in predicting how a franchise or owner/operator will actually perform is their attitude towards and about their employees. If the franchisee or owner/operator really believe that employees are a valuable asset to the business rather than an expense, the business will tend to do well. The fact is that if one treats employee's right, the employees will treat the customer's right.

Managers who prefer to manage using participative rather than autocratic decision-making styles tend to have lower staff turnover rates. This stability leads to higher profits since training costs, among other employee related expenses, can be reduced greatly. The addition benefit of this stability is that customers like to come back to the outlet and deal with the same serving staff that has given them great service in the past.

iii. Strong Drive

Third core value is the Strong Desire. Many might believe that drive is the single most important characteristic for success as a franchisee, but unless the franchisee has the requisite strengths at other core values, the level of drive will be irrelevant. Sometimes people with strong drive while putting in initial effort needed to succeed, just end up alienating their employees, customers and friends because they are always pushing others to keep up with them. As a result they end up going nowhere. It is of prime importance that the influence of belief that customers and employees are critically important in their own right and they all have important things to contribute to the business owner's success.

People matter most, no matter what business one is in, or what product or service one sells. Unless one treats people with respect and trust they deserve, long term success is not possible. Most of the successful franchisees have demonstrated a strong commitment to their staff as well as their customers, and much of their drive has been devoted to building their teams as much as customer relationships.

iv. Independence

Fourth core value is how independent the candidate is. The more independent the individual, the more entrepreneurial he is. Franchisees are often considered as entrepreneurs. But when we really look at the type of person it takes to be successful as a franchisee, what is really needed is an entrepreneur, a person who is creative but needs to work within a system. A person who is too entrepreneurial, he is likely to run into at least one of the following problems: either he gets bored and attempts to find excuses to get out of the system, or he stays and starts trying to change the system. Such persons are unsuitable for franchises as they believe they know, better than the franchisor, on how to run the business and will change it to suit them without consulting the franchisor. Conversely a person, who is not entrepreneurial enough, is also likely to fail as he will be totally dependent on the franchisor's head office even for trivial matters, An important point is that more outlets the franchisee owns, more entrepreneurial he needs to be. Yet he should still feel comfortable working within the system.

v. Sales Orientation

The fifth important core value is sales orientation. Franchisee or owner manager should feel comfortable selling the products or services. One needs to feel comfortable seeking out new ways of marketing one's products. This means a person who enjoys talking about his business and the product he sells to strangers in his normal day to day life- inside his business and outside makes a better franchisee.

vi. Responsiveness towards Customer

The 6th core value is Responsiveness towards Customer. Most people will consider customer responsiveness as the most important factor but it comes next to the importance of respecting ones employees and treating them right. The reason for not giving that high a rating to customer responsiveness is that the franchisor or owner generally does not deal with the customers on a continuous basis. It is his employees who do so. Sure the owner needs to have the initial respect for the customer, but this really becomes more of an employee training issue. After all, someone who does not care for customers will find it difficult to train his employees about customer's importance.

vii. Social Orientation

The final core value is Social Orientation meaning how comfortable the franchisee is when dealing with a lot of people on a regular basis. A franchisee that does not enjoys this constant interaction feels stressed and this may lead to rudeness to customers and employees. We all know that being rude to customers and employees are not a nice way of to build any business. A person need not be very extrovert but penalties of being too introvert can be far greater in franchising.

In case the franchisee has an introverted personality, he should be cautious in selecting an extrovert as the manager for the outlet who is responsible for dealing with the customers and the employees, most of the time.

Once you determine that you possess the core values of a franchise owner you will be better able to locate those franchise systems that best match your unique mix of personality traits.

It is of utmost importance to understand what personality traits and skill sets are the most desirable in the franchised system. On knowing a certain matches, the prospective franchisees then determine whether the franchisors are seeking new franchisees in the area where the franchisee may like to open its business. On approaching, a franchisor, the prospective franchisee will have to prove his credentials viz. bonafides as well as abilities and seriousness to the franchisor. A franchisor normally pre-qualifies a prospective franchisee before proceeding further and provides the sensitive business information only after evaluating the prospective franchisee.

4.10.7 KEY CHALLENGES IN FRANCHISING

Both franchisors and franchisees face certain challenges before and during operations. From the survey it is clearly evident that rentals are impacting profitability of franchisees and overall business viability. Franchisors too are concerned about consistent royalty payments by franchisees in such a scenario where business viability is being threatened.

The survey also indicated that one of the key reasons for attrition in the franchising space is due to falling profits.

Given below are the Franchisor's and Franchisee's views on Operational Challenges of Franchisees.

4.10.7.1 Franchisor's View – Operational Challenges of Franchisees

1. Capital Constraints
2. Retaining Employees
3. Recruitment of right talent
4. Rentals
5. Location

The biggest of the franchisee challenges in operations are related to real estate. Setting up businesses in the desired locations and paying high rentals is on the top of the challenges. Besides these, deploying the right talent and funding the business operations are also other challenges faced by the franchisees.

4.10.7.2 Franchisee's View - Operational Challenges of Franchisees

1. On-going Market support
2. Appraisal system followed by the Franchisor
3. Capital constraints
4. Retaining employees
5. Recruitment of Right talent
6. Rental – High real estate prices
7. Location

While location and rentals are biggest problems faced by franchisees, recruitment of right employee & retaining them is also suggested as a key concern by franchisees.

4.10.7.3 Operational Challenges in Franchising

1. Recruitment of skilled employees by Franchisees
2. Payment related concerns
3. Maintaining stocks at agreed levels
4. Getting the Franchisee to maintain brand & quality standards at agreed levels

There are various challenges in franchising operations such as aspects related to day to day operations (inventory keeping, employee recruitment etc.). However, the biggest concern amongst the franchisors is related to the payment of revenue shares as agreed in the initial phase of the business. Sometimes, few franchisees tend to under-report the revenues which might lead to loss for the franchisors.

4.10.8 LIMITATIONS OF FRANCHISING IN INDIA

- i. Political instability.
- ii. Underdeveloped financial statement.
- iii. No proper legal system that protects intellectual property rights and upholds Contractual obligations.
- iv. Underdeveloped infrastructures.
- v. Low income of customers.
- vi. Entry barriers.
- vii. High exit cost.
- viii. Huge investment.
- ix. Lack of awareness among the customers about the available brands in the market.
- x. Unavailability of cheap retail space.

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 affects 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.

4.10.9 EXAMPLES OF SUCCESSFUL FRANCHISING

Franchising was initially established in fast food market, where operational speed and efficiency, buying power and brand strength made an enormous difference to the profitability of the networks. However it soon spread to the retail operations, to education and health care. Today couriers, doctors, chemists, clinical laboratories, beauty parlors, florists, even schools and educational institutions and many other types of operations have adapted franchising for their expansion.

Some of the industries where franchising has proved to be successful in India are listed in Table 4.47 as given below.

Table 4.47: List of Successful Franchisees – Industry wise

Sr.No.	Sector of Franchising	Successful Franchisees
1	Computer/ IT Education	NIIT, Aptech, CADD Centre, Educadd, Ethlive, CMS, Jetking, MAAC Animation.
2	Pre-Primary Education	Little Millennium, Kidzee , Lexicon Kids, The Little Elly, The Tree House, Euro Kids, Shanti Juniors, Brain Wonders, Kalorex, Hopskotch, Poddar Jumbokids, Bachpan, Chambridge Champs, Hellokids.
3	Coaching Institutes	PACE Academy, Rao's Academy, Speekwell, Elixir, Kohinoor Technical Education, ICA, Chate Coaching Classes, Abacus, Agarwal Classes, Takalkar Classes, Times & Trends Academy.
4	Restaurants and Fast Food	Dominos, McDonalds, KFC, Panchwati Gaurav, Subway, Cheeziano Pizza, Subway, Jumboking, Burger King, Pizza Hut, Joshi Wadewale, Smokin Joe's Pizza, Upsouth, mANKAR Dosa, Wadeshwar, 95 Pasta N Pizza.
5	Bakery Food	Monjinees, Ribbons & Balloons, Kekiz, WS Bakers, Bakers Basket, New Poona Bakery, Hindustan Bakery, Chocklate Bicklate, Cake-O-Cream, Café Chocklade, Coffe Chocks, Caramella.
6	Greeting Cards	Archies, Hallmark
7	Retail Watches	Titan, Timex, Fastrack.
8	Retail Shoes	Bata, Reebok, Crocks, Sketchers, Nike, Addidas, Puma, Red Tape, asics, Hush Puppies.
9	Retail Clothing	Manyawar, C'Lai, Raymond, Global desi,

		Cotton King, Luis Philippe, Van Heusain, Peter England, Silver Leaf, Lee Jeans, Pepe Jeans, Levi's Jeans, U S Polo , Spyker Jeans, Go Colours, Bonsaii, Ritu Kumar, Aurellia, Indya, Marks Spenser, Ethenicity, me & moms, Jinny & Johnny, Forever New, Mother Care, Tommy Hilfiger, Soch, Aeropostal, Black Berrys, Park Avenue.
10	Retail Tyres	MRF, JK Tyres, Ceat, Bridgestone, Michellin, Good Year, Apollo Tyres.
11	Medical Clinics	Apollo Clinics, Madhavbaug, Fayth Clinic, 32 Dental, Dr.Batra's, Helathspring, Noble Dental Care, Thyrocare, Appolo Clinics.
12	Medical Laboratories	Dr. Lal's Pathological Labs, PH Diagnostics, Metropolis Lab, Star Imaging & Research Centre, Richfeel
13	Chemists	Wellness Forever, Apollo Pharmacy, Patanjali, Himalaya
14	Beauty Parlors/ Saloons, Health Clinics	Shehnaz Hussain, Lakme Saloon, Jawed Habib, Strands Salon, Salon Apple, Jawed Habib, Tony & Guy, Enrich Salon
15	Travel	Cox & Kings, SOTC, Thomas Cook, makemytrip.com, Kesari Tours, Ruby Tours, Veena World
16	Florist	Fern 'n' Petals
17	Courier	Blue Drat, Overnight Express, DTDC, First Flight, Professional, Shree Maruti, Shree Anjaneer, Shree Nandan, Shree Mahaveer, Palande, On dot, Trackon, Madhur.
18	Laundry	Washeteria, Pepwash, De-Luxe, Dhobiwala, Laundromint, Euroclean, U-

		Clean.
19	Car Wash	First Choice, 3M Car care
20	Fitness Centers	Gold Gym, VLCC, Talvalkar's, Physc Gym, Anytime Fitness, ABS Gym, Universal, YFC Gym
21	Telecom	Reliance Jio, Airtel, Tatasky DTH, Vodafone, Tata DoCoMo, Videocon DTH, Idea Cellular, BSNL, Tikona
22	Jewelry	Tanishq, Malabar Gold, Geetanjali Gold, Orra, Malbar Gold, Neelkanth Jewelers, PC Jewelers, Nakshatra Diamond.
23	Sweet Mart	Haldiram, Chitale Bandhu, Bikaner Sweets, Hot Chips, Kaka Halwai, Jalebi Junction
24	Ice-creams & Coldrinks	Baskin Robbins, Quality Waals, Natural Ice cream, Dairy Don, Dinshaw's, Shreeji Ice- Cream, Kaware, Havmor, Amul, Creamstone, Sujata Mastani, Just Falafal, Creamist, Falahaar, Giani Ice-cream, Keventers Ice Cream.
25	Tea	Chaiwai, Tea Trail, Yewale Amrittulaya, Premacha Chaha, Tea Trails, Kadak Special, Saiba Amritulya, Pappu Chaiwala.
26	Café outlets	Café Peters, Starbucks, Café Durga, Dhaba Café, Cafe Desire, Grandmaas' Café, Café Egglicious, Café Arabia, Barista Café.
27	Takeaway Foods	Rollsmania, Venky's Express, Jumboking, Punjab Grill, Rolla Costa, RushHrs, Cheesy Bites, Chaat Bazaar, Goli Vada Pav, Rohit Vada Pav, S Kumar Vadewale.

Source: Primary Data

The above list is not comprehensive but it includes well-known brand names and companies that might not have grown to their present position without franchising. If franchise networks are developed properly, businesses offering different types of products and services are bound to grow at a rapid pace.

In a restaurant one delivers a set of standard products to the customers in a totally controlled environment. In Computer Repairs and Services one provides uniquely varied services to the customers in their own establishments. The suitable operating system is the key to success in both the cases. If the franchising is to succeed the system should have a significant advantage over other existing businesses in the market.

4.10.10 CRITICAL SUCCESS FACTORS IN FRANCHISING

In order to be successful & grow the franchised business efficiently, the franchisees and franchisors need to give due attention and make a note of various important and critical success factors in franchising business.

The Table 4.48 given below shows the certain critical success factors in franchising business.

Table 4.48: Critical Success Factors in Franchising

Descriptive Statistics.				
	N	Minimum	Maximum	Mean
Growth in terms of number of Franchised outlets opened	25	1.00	5.00	2.2000
High level of Cooperation between franchisor and franchisee	25	1.00	5.00	1.6000
High levels of franchisee motivation	25	1.00	4.00	1.9000
Low levels of Conflict between franchisor and franchisee	25	1.00	5.00	1.8000
Sharing of risk between franchisor and franchisee	25	1.00	4.00	2.5000
Adequate support by the franchisor to the franchisees in the day to day operations.	25	1.00	5.00	2.2000
Stricter control of the franchised operation by the franchisor	25	1.00	4.00	1.4000
Low capital requirements for expansion by the franchisor	25	1.00	4.00	2.6000
Deployment of adequate training to the franchisees	25	1.00	4.00	2.1000

High levels of Sales Turnover	25	1.00	5.00	2.3000
Growth in terms of market share	25	1.00	4.00	1.8000
Market penetration of marginal/distant locations through franchising	25	1.00	3.00	1.9000
Customer awareness of your company being a "franchised" Operation	25	1.00	4.00	2.3000
Awareness of your company being a "franchised" operation in the in the business	25	1.00	5.00	2.7000
Valid N (List wise)	25			

Source: Primary Data

Based on the outcome of descriptive analysis as indicated in the Table 4.48 as given above, it has been determined that all the parameters are having the mean value of less than 3.00. It refers that all the factors consider for the study are critical success factors. The data collected for this question was based on five point rating scale considering 1 as strongly agree to 5 as strongly disagree. Hence the finding shows that all the parameters are Critical success factors in Franchising. The various parameters and its mean values are as mentioned below:

- i. Growth in terms of number of Franchised outlets opened (Mean value: 2.2000)
- ii. High level of Cooperation between franchisor and franchisee (Mean value: 1.6000)
- iii. High levels of franchisee motivation (Mean value: 1.9000)
- iv. Low levels of Conflict between franchisor and franchisee (Mean value: 1.8000)
- v. Sharing of risk between franchisor and franchisee (Mean value: 2.5000)
- vi. Adequate support by the franchisor to the franchisees in the day to day operations (Mean value: 2.2000)
- vii. Stricter control of the franchised operation by the franchisor (Mean value: 1.4000)
- viii. Low capital requirements for expansion by the franchisor (Mean value: 2.6000)
- ix. Deployment of adequate training to the franchisees (Mean value: 2.1000)
- x. High levels of Sales Turnover (Mean value: 2.3000)
- xi. Growth in terms of market share (Mean value: 1.8000)
- xii. Market penetration of marginal/distant locations through franchising (Mean value: 1.9000)
- xiii. Customer awareness of your company being a "franchised" Operation (Mean value: 2.3000)

- xiv. Awareness of your company being a "franchised" operation in the in the business community (Mean value: 2.7000).

Understanding Critical Success Factors in franchising business assumes an utmost importance in the business growth and sustenance of franchised business activities.

All the relevant data analysis, facts and figures with reference to the Success and Failure analysis as well as Legal issues in the franchising business in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.8 - H0: Failure rate of the Franchisees in India is more as compared to the Success rate of the Franchisees.

Thus, “Alternative Hypothesis No.8 - H1: “Failure rate of the Franchisees in India is less as compared to the Success rate of the Franchisees.” is Accepted.

4.11 EXAMPLES OF FRANCHISING SUCCESS STORIES

Following section mentions various real life success stories happened in franchising business in India. These all success stories are noteworthy for achieving further growth of franchising business in India.

1. Jumboking (Vadapav):

There will always be success stories of internationally successful fast food chains that have evolved out of a single food product that was hugely popular in a given region. Jumboking could well be India’s first such story, especially after the way they have rolled out stores on a national scale. They call this ‘Vadapower’. Given below is the success story of how powerful the brand’s recipe for running a super successful F & B franchise business really is.

Back in August 2001, in a small suburb of Mumbai, an experiment to wrap and serve Vadapav began by Mr.Dheeraj Gupta (Founder & MD-Jumboking Vadapav). The kitchen was modernized, electric fryers with timers were installed and a standardized product was served to the millions of railway commuters that dot the metropolis of Mumbai. On 3rd April 2014, after 13 years, Jumboking, the 1st Indian brand to modernize the Vadapav and establish a franchising program around it, sold its 100 millionth Vadapav.

Business Model:

There is a dynamic change that has been witnessed among Indians' taste bud in the last decade. Whether international or home grown, all F & B brands have infused contemporary flavors. Jumboking too adopted the regular Vadapav to global, metropolitan flavors such as Corn Palak and Schezwan. Jumboking has seen a rapid growth in Mumbai via the franchise business model. The brand is all set to make a mark for India's first true global chain of food and beverages (F&B) brands that has proven lucrative business model. They are making waves pan-India. Within India they operate via 'single unit franchisees' and 'city master franchisees'(CMFs).Currently Jumboking has around 60 outlets across 18 cities in India.

Jumboking's USP - IQF Technology:

Jumboking's USP is 'On The Go'snacks keeping in mind the mass population and their urgency to have a quick bite on the move. Just like other reputed international chains, Jumboking also makes use of IQF technology for managing its back end operations by offering its wide range of Vadapav flavors to its customers.The IQF line is capable of manufacturing 10 tons per day.

Customization:

Jumboking has successfully adopted customization of products and services for making their brand popular & enhancing their sales revenue.

Training:

To run the brand's franchise operations effectively, Jumboking offers a complete business support and training program to its franchisees through operational training, site selection, execution and store design. The brand offers marketing related support region wise as well as pan India basis. The support related to supply chain and logistics is also offered. The brand gives operational support to its City Master Franchisees (CMF) also.

Projected Growth:

After its humble beginning in Mumbai, Dheeraj Gupta, with its marquee brand Jumboking is now one of the front-runners in the Indian QSR segment. For Jumboking, 'Master Franchisee' is the feasible route to expand as they have in-depth knowledge of their city, surrounding areas, eating habits of the region, potential areas and target groups which help them to know the city better in terms of business and market potential. Jumboking further looks ahead to expand across Mumbai, Bangalore, Delhi, Kolkata, Pune, Chennai, Nagpur, Coimbatore, Jaipur, Surat and Ahmedabad.

Jumboking Franchise Facts:

Investment: Rs.15 Lakh

Area: 200-300 Sq. Ft.

Break-even: 3 Months

Return-on-Investment: 35%

Growth Drivers of QSR industry in India: Ease of operations, Standardization

Franchise Agreement Term: 10 years, renewable for another 3 terms.

2. Eurokids:

Eurokids International started its operations with the publishing business in India in 1997.

Eurokids International brought in the world's best brand like Disney, Mattel, Enid Blyton, Noddy, Tin Tin and Agatha Christie among others to India. In 2001, Eurokids Preschools were launched with intent to bring good quality content and world class learning environment to Indian children. The brand aims to bring international quality education content to the children in India.

Business Model:

The brand entered the early education arenas and they observed that the preschool space is highly fragmented market with no entry barrier but a strong need for quality education. The brand felt that this sector lacked standardized, structured and age appropriate curriculum and was run mostly by individuals with limited/no experience and resources. This observation inspired them to take off. The strong need for quality education acted as their motivation. On choosing franchise route the brand went ahead with an intention to create a base in 35 top towns and cities and this could have been only achieved through franchise model. But within the first year itself they had presence in 78 cities and the the rest was history.

USP: Content, execution, scalability, standardization, monitoring and experience in the preschool space are the strengths of Eurokids. These factors constitute the core competency of Eurokids.

Business partner requisites:

A franchisee needs to invest in Rs.15 Lakh and requires an area of 1500-2000 sq.ft. to open a Eurokids school.

Projected Growth:

The brand has its operations majorly via franchise centres. They started with two Pre-schools and today they are a strong network of over 900 franchisees spread across in 300 towns and cities in India.

3. DTDC Express Ltd (Courier services):

Established in 1990, DTDC is an entrepreneurial venture of visionary Subhashish Chakraborty having an annual turnover of over Rs.900 crore. DTDC today successfully operated seven zonal offices, 20 strategically located regional offices and over 522 operating facilities spread across India. The company has presence in more than 500 district headquarters through its large network of more than 8000 offices and extends services to over 10,000 pin codes while handling more than 12 million shipments every month. DTDC also has a significant global foot-print and services 220 international locations across 20 countries. Lately, DTDC has embarked upon its journey of transforming its identity from an 'express document player' to an integrated parcels driven businesses through its strategic partnership with Geopost's DPD Group, the Europe's second largest parcels delivery player. To project DTDC Courier & Cargo Ltd as complete express logistics player that delivers significant value in the markets, the brand name was recently re-christened to DTDC Express Limited.

Business Model:

DTDC's unique franchise based business model has facilitated the creation of organization's formidable reach in India as well as cultivated entrepreneurship opportunities for its partners. This model has since become the blueprint of DTDC's success and the company continues to replicate it both domestically and internationally.

USP of DTDC:

DTDC's immense credibility and strength lies in its core competency, strong organizational values coupled with effective business model. It has an integration of multiple businesses like supply chain solutions, 3PL, Dotzot-last mile delivery services. DTDC is a unique retail enterprise that drives every DTDC franchise owner to deliver to his best. DTDC has always endeavored to bring its customers the best solutions with greater accountability, faster response times and higher accuracy through focused investments in state-of-the-art technologies.

Business partner requisites:

The prospective franchisees should be willing to invest Rs.2-3 lakh.

Projected growth:

DTDC's has an extensive and robust reach in terms of it's over 9100 franchisees that are currently growing at a rate of 20% per annum. The company aims to takes the tally to 11000 franchisees by the end of FY 2015-16. Also the company's specific area of focus is to become the 'Logistics Supplier of Choice' for B2C businesses.

4.Dr.Lal Pathlabs:

Established in 1949, Dr.Lal PathLabs has a proven track record of over six decades for strict adherence to the international standards and benchmarks.

The company offers the widest test menu and has pan-India presence in all important cities and towns, in the form of state-of-the-art laboratories and collection centers.

With employee strength of over 3000, it is committed to serve its customers even better with each passing day. Over the years, the company has been synonymous with trust and reliance in the field of pathology services.

Business Model:

Dr.Lal PathLabs has so far opened over 1300 franchisees and 160 company owned units in India. For taking up brand's franchise, the prospective franchisee requires an area of 500-700 Sq.Ft. and an investment of Rs.5-6 lakh. It takes 6 months-1 year to reach the breakeven point and franchisee can easily achieve return on investment (ROI) of 20-25%.

USP of Dr.Lal PathLabs:

Successful establishment of a network of franchise partners based on unflinching and non-negotiable service and technology standards and living up to their promise of delivering world class diagnostics solutions to their customers.

Business partner requisites:

Banking on latest technology and highly skilled personnel, Dr.Lal PathLabs seeks passionate partners to provide quality diagnostic services pan-India. At Dr.Lal PathLabs, the belief is that quality, service and innovation is a way of life.

5. Tanishq:

Tanishq, which was established in 1996, today has a presence in in 99 cities with over 190 outlets. The brand started franchising in the year 1997.Tanishq is Indian national jeweler which offers gold and gem-set jewelry (in 22 and 18 Karat gold) in over 5000 traditional, western and fusion looks. The brand has introduced the state-of-the-art karat meter at every single Tanishq store which guarantees the most accurate way of measuring the purity of gold. The brand has provided 100% exchange value for diamonds and other precious stones. Tanishq ensures that its customers are never disappointed. The jewelry is manufactured in a fully integrated manufacturing plant with the state-of-the-art- equipments.

Business Model:

A significant part of its target customers resides in smaller cities. Hence, Tanishq has opted for the franchise route in order to expand & grow. The franchising route has enabled them to cater to the jewelry requirements of wider customer base and also makes Tanishq very accessible to people nationwide. The brand aims to continue to be the market leader in the organized jewelry sector and offers best-in-class jewelry to its customers. They see their products reaching a larger number of customers while continuing to offer them the best designs.

USP of Tanishq:

Tanishq has been synonymous with superior craftsmanship, exclusive designs and guaranteed product quality. The brand strives to understand the Indian women and provide them with jewelry that meets her traditional and contemporary desires and aspirations. Tanishq is India's only national jeweler which offers gold and gem-set jewelry.

Business partner requisites:

The brand is looking for franchisees who want to venture in to jewelry business and complete its requirements.

Projected growth:

The brand has about 59 company owned and 135 franchise units at present. It has aimed to open 48 franchise stores by the end of FY 2015-16.

Future of the Industry:

The organized retail jewelry sector in India plays a very important role in our economy and is growing with each passing day. The consumer has evolved and with the changing lifestyle of people across regions, the growth of the organized and branded jewelry sector has seen an elevation over the years.

6.Amul:

AMUL enjoys immense consumer trust across the nation as well as in many parts of the world because of its consistent supply of essential and nutritional food products like Milk, Butter, Ghee, Cheese, Milk powders, Ice-creams and Chocolates.

AMUL with its status as an undisputed leader in the dairy products, started franchising in 2001 and currently has over 8500 franchisees and 140 company owned units all over India.

Currently, the brand has an annual turnover of over Rs.21,000 crores.

Business Model:

As Amul started rolling out new products, it felt that exclusive retail outlets was the only way of showcasing the entire range of products available in more than 400 Stock Keeping Units (SKU) to the discerning consumers. Thus, it tested the concept of putting up an AMUL Exclusive outlet in the year 2001 which was a runaway success from day one. For Amul, franchising was a very logical method of expanding the count of Exclusive Outlets.

Business partner requisites:

The brand is looking out for the deserving franchise partners with an investment capacity of Rs.1.50 lakh for Amul preferred outlet (APO) and Rs.4.0 lakh for Amul Ice-cream parlor. The franchisee must have own or rented shop for both the formats. The breakeven period for both the formats is 18 months.

Projected growth:

AMUL targets to have an additional 1000 franchisees by the end of FY 2019-20. It sees its leadership to continue in different categories in coming years. The brand also sees itself to redefine the consumption patterns of various functional foods and also develop new categories in the dairy industry catering to fast evolving Indian consumer base.

7. The Raymond Shop:

The Raymond Shop (TRS) has been a pioneer in organized retailing in the country with one of the largest franchise led retail network Pan India. The brand has achieved a remarkable growth since its inception and is on strengthening its base across small cities.

The Raymond Shop is a premium retail store offering complete wardrobe solutions for men which includes top-of-the-line brands Raymond, Raymond (Ready-To-Wear), Park Avenue, Colour Plus, Parx and Notting Hill. The Raymond Shop provides complete solutions to Men's wardrobe from fabrics to readymade apparels including custom tailoring. With annual turnover of Rs.4,500 crore, the brand has successfully extended its presence across over 385 cities of India with over 658 franchisees and 61 company owned outlets.

Business Model:

Raymond Retail has been built through its franchise network. The brand believes that it is the only way a brand can grow beyond the top tier – I & II cities as customer needs and tastes are very heterogeneous in the country and the franchisees bring this know-how of this market along with its entrepreneurial spirit to succeed.

Business partner requisites:

The brand is seeking to extend its operations within tier –III, IV and V cities. In terms of investment, it varies from size of store, marketier and potential turnover. Ideally, the investment range of The Raymond Shop (TRS) starts from Rs.85 lakhs onwards.

Projected growth:

Raymond Retail will continue to be one of the leading retail players in India with strong brands that consumers love. By the end of FY 2019-20, the brand is planning to add 60-70 stores mainly in tier – III, IV and V cities of India.

8. Aptech Ltd:

Aptech has presence in more than 40 emerging countries. And has over 1300 centers of learning across the world. Aptech commenced its education and training business in 1986 and has globally trained over seven million students.

Aptech offers career and professional training through its Aptech Computer Education, Arena Animation & Maya Academy of Advanced Cinematic (both in Animation & Multimedia), Aptech Hardware & Networking Academy, Aptech Aviation & Hospitality Academy and Aptech English Learning Academy brands.

Business Model:

Aptech is present across 60 Indian towns and cities through over 800 franchise locations. Aptech believes in an asset light model and has spread across geographies through the franchise model. The next surge of expansion also aims at the franchise model.

Business partner requisites:

Aptech seeks franchisees with an area between 800-2000 sq.ft. and who can invest about Rs.10-15 lakh.

Projected growth:

The company which is amongst the most respected global training solutions providers will continue to seek potential and start operations in UN represented or less represented areas.

Aptech Ltd have presence already in over 40 countries.

They have more plans for Sri Lanka where they will engage for more number of brands reaching there.

9. Subway:

QSR chain Subway started its journey way back in 1965 and started franchising in 1974. Originated from USA, Subway is present in over 70 cities in India with over 531 stores. Worldwide Subway has 44,210 restaurants in 110 countries. Subway is one amongst the world's largest sandwich chains. The company's tasty yet healthy food and its franchise based business model have helped fuel its growth.

Business Model:

All Subway restaurants are completely owned by local franchises who are entrepreneurs. There are no company owned restaurants. Subway's franchising model has been the key behind the brand's successful run. Entrepreneurs across the world have shown keenness for this model and are successfully running Subway restaurants with many of them going on to become multi-restaurant owners. The collective sense of being stakeholders in Subway's success is another key motivation that drives its franchisees' zeal to help Subway achieve newer business milestones.

Business partner requisites:

A low investment cost, no limitation on the kind of location, a franchise can operate a Subway store with good return on investment. A strong back-end support from Subway in terms of training and business mentorship further make Subway's franchising model a promising position.

Projected growth:

Subway plans to enhance its presence across the subcontinent and aims to open 600 more restaurants in the country by the year 2017-18.

10. Patanjali Ayurveda

Patanjali Ayurveda Limited was started by Yog Guru Baba Ramdev in the year 2006 and it aims to provide quality products for all the people, targeting at both urban and rural places. Baba Ramdev along with Acharya Balkrishnan had produced such quality products for a quality life. Patanjali consists of only Ayurveda products where the farmers help in supplying the ingredients. The agriculturers helps Patanjali in providing with the best quality sources of grains, herbal and organic products. This would simultaneously help the farmers to raise their income and help them develop more organic requirements to the required organization. Patanjali has now become a household product in the country. And so, it is the fastest-growing brand. Patanjali is now successfully earning trust through its guaranteed quality products. The

products of Patanjali are available in almost 3 lakh+ stores, and there are about 5000+ franchise stores with over 1000+ products being manufactured. Patanjali products are found online as well. It is one of the fastest-growing brands/companies, with a turnover of about 5000 crores in 2015-16. Baba Ramdev in an interview has stated that the profit of Patanjali goes to charity. Patanjali products are organic, best quality and available at affordable prices.

Patanjali Franchise Schemes:

Patanjali offers following three schemes which will give prospective franchisees a clear idea of where to submit their application.

- i. Gramodyog Nyas
- ii. Patanjali Mega Store
- iii. Patanjali Chikitsalaya & Arogya Kendra

Business Model :

Patanjali is an FMCG company that produces and sells mineral and herbal products. The customers of Patanjali come from its already established Yoga and Ayurveda network.

Patanjali has 5 lakh branches of Patanjali Yoga Samiti and around 5 lakh teachers in them. Not only this, it has another 10,000 Patanjali Chikitsalaya and Arogya Kendras. Patanjali also organizes Yoga camps all over the country. The network created by all of this serves as the ready market for Patanjali. All this forms the base for the Business Model of Patanjali. The business Model of Patanjali is like any other FMCG company i.e., to produce and sell its products. But, the growth seen by Patanjali is unlike any other FMCG company.

Business Partner requisites:

The following are the requirements for setting up of a Patanjali Mega Store:

Area requirement: Need a minimum 2000 sq.ft. area for Patanjali Mega Store.

Initial investment: Rs.1 crore.

Security deposit (refundable): Rs.5 lakh

However, Patanjali Mega Store has to be located only in the prime area in the city.

Megastore should have a minimum distance of 2.5 K.M. in Metro City & 3.5 Km in Non-Metro City from existing Mega Store & minimum range of 1 Km from existing Patanjali Chikitsalaya & Arogya Kendra.

- The Institute will appoint a Vaidya at Mega Store, and the store operator has to provide medical instruments to the Vaidya. The operator of the megastore must have to arrange sitting, drinking, and toilet etc. facilities at the store.
- The Mega Store will sell only the products of Divya Pharmacy, Patanjali Ayurved and

products approved by the institute.

- The Cost of Patanjali Franchise starts from 5 lakhs for a small shop to 2 crores for Mega Stores.
- The prices, as mentioned above, are for opening the store whereas the price mentioned is inclusive of interiors, set-up, and inventory.
- Patanjali Mega Stores can have a minimum area of 300 sq.ft. to a maximum of 2000 sq. ft.in city/town.

Projected Growth:

Patanjali Ayurveda is excited to add more and more franchisees, distributors and dealers in many other districts. Patanjali group, which has acquired Ruchi Soya, expects to have a turnover of Rs. 35,000 - Rs 40,000 crore in the FY 2020-21 and plans to become the largest company in the FMCG sector in the coming years replacing market leader Hindustan Uniliver Limited. The company is expected to register a joint turnover of up to Rs. 25,000 crore in the in the FY 2019-20 in which around Rs.12,000 crore is likely to be contributed by Patanjali group firms and Rs.13,000 crore may come from Ruchi Soya. After the acquisition of Ruchi Soya, Patanjali expects a three-fold growth, become a major player in the edible oil category and take a lead in the domestic production of soya bean oil, sunflower oil and palm oil.

11. Airtel:

Bharti Airtel Limited is a leading Indian global telecommunications company based in New Delhi, India with operations in 20 countries across South Asia and Africa. The company ranks amongst the top 4 mobile service providers globally in terms of subscribers. In India, the company's product offerings include 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high speed DSL broadband, IPTV, DTH, enterprise services including national & international long distance services to carriers. In the rest of the geographies, it offers 2G, 3G wireless services and mobile commerce. Bharti Airtel had over 307 million customers across its operations at the end of November 2014 through franchising network. Bharti Airtel offers GSM mobile services in all the 22 telecom circles of India and is the largest mobile service provider in the country based on the number of customers. The group offers high-speed broadband with the best in class network. With fixed line services in 87 cities, Airtel helps its customers to stay in touch with their friends & family and keep them updated round the clock.

It is the largest mobile network operator in India and the third largest in the world with over 429 million subscribers. Airtel was named India's second most valuable brand in the first ever brands ranking by Millward Brown and WPP plc.

Business Model:

Airtel showcases an exemplary business model for others to follow irrespective of the industry that each belongs to. Airtel focuses mainly on two things: customer acquisition and servicing (retention) and business development or expansion. It uses a B2C model to derive income from its customers and a B2B model, registered under Airtel Business that helps startups and SMEs. Airtel stands out with its unique business model that aims to provide the customers with the best services at competitive prices. The other functions that include hardware, network management, back end applications (billing, etc.) are outsourced. This business model has been pioneered by Airtel and inspires many newcomers in this business. Airtel believes in outsourcing everything else apart from their marketing, sales, and finance operations and the 'minutes factory' model of low cost and high volumes. In its business model, Airtel has underlined some key points that they term as strategic business pillars for their businesses. These are: Focus on Quality customers, Opening doors for new revenues, Providing top-of-the line services, Employee-centric culture and Eco-friendly approach.

Business Partner Requisites:

Area Required: 750-1000 Sq.Ft.

Investment: INR 10000 – 50000.

Projected Growth:

Telecom operator Bharti Airtel is expected to witness a 13 per cent annual growth in consolidated revenue, and 26 per cent growth in EBITDA by financial year 2022, mainly driven by tariff hikes, according to CLSA. Bharti Airtel's mobile traffic has surged for its 283 million subscribers. However, it forecasts a 13/26 per cent revenue/EBITDA CAGR for Bharti Airtel by FY2022 led by tariff hikes and 4G upgrades.

4.12 CHAPTER SUMMARY

India is one of the biggest emerging markets today for a number of popular international brands in almost all sectors of the economy. Franchising has a tremendous scope to explore & tap these markets in India. Addressing the Conflicting issues in franchising business assumes the foremost importance in achieving success and growth of franchising business in India. However, the success of franchising is closely associated with the support of the country's government to this system more importantly with respect to handling the legal issues of franchise business in India. Pune has already welcomed & accepted franchised mode of doing business. More & more established entrepreneurs as well as numerous prospective

entrepreneurs find this mode of business more safe and promising. However, due to lack of specific franchise law in India, these entrepreneurs who have taken franchisees of different international, national & local franchisors face numerous problems and strongly feel the need for a specific franchise law to regulate the franchised activity for its smoother functioning. This chapter has more clearly highlighted the various aspects and dimensions of the legal environment of franchising business. It has focused upon the franchise laws prevalent in some of the developed countries as well as some of the developing countries across the world while providing a valid justification to support the need to have a specific franchise law in India. It also has highlighted the existing regulatory system of franchising operational in India and its pitfalls/drawback. Finally, a primary data analysis has been deployed to support the very fact that franchisees find it difficult to operate without a specific franchise law in India. Further, different hypotheses have been formulated and tested in order to prove that there exists a strong need to have a specific as well as more comprehensive franchise law that can well regulate the franchising business activities in India.

CHAPTER – 5

FINDINGS, CONCLUSIONS, SUGGESTIONS AND RECOMMENDATIONS

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CHAPTER – 5

FINDINGS, CONCLUSIONS, SUGGESTIONS AND RECOMMENDATIONS

5.1 INTRODUCTION:

The researcher has arrived at various findings and has drawn appropriate conclusions based on his detailed research work in the subject under study. Based on these findings and conclusions the researcher has put forth various suggestions and recommendations accordingly. This chapter covers the details of the findings, conclusions, suggestions and recommendations based on the research study.

PART – A: FINDINGS & CONCLUSIONS

5.1.1 FINDINGS & CONCLUSIONS RELATED TO THE GROWTH OF FRANCHISING IN INDIA

(Ref.

Objective No.1; Hypothesis No.1)

Over the last couple of decades franchising has been proved to be one of the most successful and feasible ways of expansion and growth of business activities in India. Several industry verticals such as Food & Beverages, Education, Fashion, Hospitality and Tourism are leveraging their growth by franchising their products under various formats. Today India is a home to approx. 3500 - 4000 brands which have adopted the franchising model of business.

Since liberalization, the Indian economy has witnessed steady evolution of consumerism which has been increasing due to the growing youth population, higher levels of disposable income & constant growth of the urbanization. India is seen to have been steadily moving towards becoming a manufacturing and service oriented economy in the past few decades.

Franchising has been contributing to the overall economic growth of a country in multiple ways and means like employment creation, having access to the goods & services and in expansion of the nation's tax base. In India the franchising concept is growing at a considerably fast pace over

the last two decades principally because it has been considered as one the most feasible options for tapping the vast and ever growing consumer market potential in India.

5.1.2 Growth drivers for franchising in India

Given below are the important growth drivers for franchising business in India.

- i. Ever increasing consumerism, increasing willingness to spend more, growing awareness as well as preferences towards branded products and services, increased international exposures and increased use of global brands of products and services are actually responsible for growing the demand of franchising whereas increase in the entrepreneurial ventures by Indian entrepreneurs, increased awareness of Franchising as business growth expansion method for being comparatively low in the associated risks involved are driving the supply side of franchising.
- ii. Services sector that includes Courier Services, Financial Services, Food Services, Travel and Tourism services amongst other services are expected to contribute largely to the overall growth of franchising business activities in India in the coming decade or so.
- iii. Franchising in Health, Beauty & Wellness sub-segment is expected to grow to almost 6 -7 times then current growth level. Retail & Lifestyle sector and Education sector are expected to be the other major areas of franchising where there is huge scope for franchising to be successful.
- iv. Moreover, the Indian government has allowed the Foreign Direct Investment (FDI) in selected business sectors such as retail that has been considered as the major step to attract the international franchisors to set up and expand their franchised business activities in India.
- v. Alongside the protection of franchisee's rights, the success of franchising business is also largely dependent on the important role that can be played by the various financial institutions in the promotion and growth of the franchising business activities in India.
- vi. A team approach involving Franchisors, Franchisees, Industry associations and various financial institutions is of the utmost need for enhancing franchising business activities in India.
- vii. Presently, it is the business format franchising that is growing at a faster pace and is spreading to virtually every sector of economy from restaurants to educational institution and clinical laboratories.

viii. Following factors favors the international franchisors to establish and grow the franchising business in India.

India being an emerging market:

Since India has a great business potential that has still been remaining to be explored fully especially in the franchise activities, a significant number of international franchisors are focusing on the untapped Indian markets. India being the important and lucrative market for the international investors has also been attracting the global entrepreneurs to invest in the country.

Changing lifestyles and preferences of Indians:

One

of the important factors for the achievement of success by these international Food and Beverages firms is the ever changing lifestyles of the end consumers. Higher disposable income has led to a significant increase in the buying power of the middle class population. The consumers in India spends to the tune of around 50 -55 per cent of their income on food and beverages alone. Adding to this, there has been a considerable change in the preferences of the consumers in India. Presently, people keep trying out various types of cuisines available to them instead of resorting to their usual Indian cuisines.

Majority of the youth population:

About

70-75 percent of India's population comprises of the youth. It is the younger generation who mainly are desirous of eating out and trying out different cuisines. Obviously, the significant growth in this segment has attracted the international players to enter Indian markets with their specialized brands of cuisines.

Easy entry routes:

Until the last decade, it was not so easy for the global players to enter the vast Indian markets space. However, with the Indian government easing out the entry routes for international brands with the objective of strengthening national economy, many international franchisors have made a successful entry in to the Indian markets.

5.1.3 Findings and Conclusions related to Growth of franchising business in Pune region

Present research brought forth following facts & figures with respect to growth of franchising business in Pune region.

1. There are a **total of 5454 operative Franchisees** in Pune region.

The Sub-sector wise distribution of Franchisees in Pune region is as follows:

- i. **Retail & Lifestyle** – 1172 franchisees (**21.49%**)
- ii. **Food & Beverages** – 1502 franchisees (**27.54%**)
- iii. **Healthcare & Beauty** – 792 franchisees (**14.52%**)
- iv. **Education** – 515 franchisees (**9.44%**)
- v. **Support Services** – 1473 franchisees (**27.0%**)

2. There are a total of **724 operative Franchisors (brands)** in Pune region.

The Sub-sector wise distribution of Franchisors (brands) in Pune region is as follows:

- i. **Retail & Lifestyle** – 248 franchisors (**34.25%**)
- ii. **Food & Beverages** – 164 franchisors (**22.65%**)
- iii. **Healthcare & Beauty** – 109 franchisors (**15.06%**)
- iv. **Education** – 89 franchisors (**12.29%**)
- v. **Support Services** – 114 franchisors (**15.75%**)

3. Out of 1172 franchisees in Retail & Lifestyle, **Men's wear** franchisees accounted for 369 franchisees (**31.48%**) followed by **Women's wear** with 279 franchisees (**23.81%**) franchisees followed by **Foot wear** with 146 franchisees (**12.46%**). The lesser number of franchisees were found in the subsector **Gift shoppes & Toys** with 18 franchisees (**1.54%**) & **Sports Items** with only 8 franchisees (**0.68%**).

4. Out of total 1172 franchisees in Retail & Lifestyle, **Newly developed areas** accounted for 740 (**63.1%**) franchisees, while **Old city areas** have 354 (**30.0%**) franchisees and **Outskirt areas** have 78 (**6.66%**) franchisees.

5. Out of total 1502 franchisees in Food & Beverages sub-sector, **Bakery & Confectionaries** franchisees accounted for 391 franchisees (**26.03%**) followed by **Ice-cream Parlours & Juice Bars** with 279 franchisees (**18.58%**) franchisees followed by **Quick Service Restaurants** with 248 franchisees (**16.51 %**) and **Amrrittulya Tea Outlets** with 152 franchisees (**10.12%**). The lesser number of franchisees were found in the **Take Away Restaurants** subsector with 51

franchisees (3.4%) & **Frozen food** with only 48 franchisees (3.2%) followed by **Fine Dining Restaurants** with only 45 franchisees (3.0%).

6. Out of total 1502 franchisees in **Food & Beverages** sub sector, **Newly developed areas** accounted for 844 (56.2%) franchisees, while **Old city areas** have 532 (35.4%) franchisees and **Outskirt areas** have 126 (8.39%) franchisees.

7. Out of total 792 franchisees in **Healthcare & Beauty** sub-sector, franchisees in **Health clinics, Pathology Labs & Hospitals** dominated the subsector with 221 franchisees (27.9%) & **Beauty parlors, Spas & Salons** with 217 franchisees (27.4 %) franchisees. The lesser number of franchisees were found in **Pharmacy/Wellness & Nutrition products stores** subsector with only 42 franchisees (5.3 %).

8. Out of total 792 franchisees in **Healthcare & Beauty** sub-sector, **Newly developed areas** accounted for 478 (60.4%) franchisees, while **Old city areas** have 266 (33.6%) franchisees and **Outskirt areas** have 48 (6.06 %) franchisees.

9. Out of total 515 franchisees in **Education** sub-sector, **Pre-School & Primary Schools** franchisees dominated the subsector with as high as 307 franchisees (59.61%). The lesser number of franchisees were found in **Animation training institutes** with 18 franchisees (3.5%) which are followed by **Miscellaneous Training Institutes** subsector with only 15 franchisees (2.91%).

10. Out of total 515 franchisees in **Education** sub sector, **Newly developed areas** accounted for 281 (54.6%) franchisees, while **Old city areas** have 183 (35.5%) franchisees and **Outskirt areas** have 51(9.90%) franchises.

11. Out of total 1473 franchisees in **Support services** sub-sector, **Courier & Logistics** topped the list with 730 franchisees (49.56%) followed by **Telecom & Internet** with 383 franchisees (26.0%). The lesser number of franchisees were found in **Real Estate Services** with only 7 franchisees (0.48%) while **Business Consultancy Services** with only 6 franchisees (0.41%).

12. Out of total 1473 franchisees in **Support services** sub sector, **Newly developed areas** accounted for 771(52.3%) franchisees, while **Old city areas** have 554 (37.61%) franchisees and **Outskirt areas** have 148 (10.1%) franchises.

13. Most of the regional franchisors are knowing about fact that over the **last about five years the shopping malls have been increased almost 2 folds** that has led to the increase in the opening of stores. Now-a-days shopping malls are the most preferred choices for the retailers. Most of the popular brands operative in franchising today have been focusing shopping malls for their business venture. **Obviously, many franchisees are moving to shopping malls from the market place in order to encash the benefits thereof.**

14. Shopping malls are having a certain special place in the hearts of the consumers in Pune. Besides the Education sector and IT (Information Technology) sector, shopping malls in Pune have become the one of the most important factors for achieving the significant growth rate of Pune city and the surrounding areas. **There has been a significant rise in the number of shopping malls in Pune city and the surrounding areas since the year 2011-12 and this increase in the shopping mall is still going on even today. There are nearly 20 major shopping malls which are currently being in operations in Pune city & the surrounding areas.**

15. **Out of 1307 outlets in major Malls in Pune, there are 844 franchised outlets and remaining 441 outlets are non-franchised outlets.**

16. The largest mall - **Phoenix Market city** has **189 franchised outlets & 117 non-franchised outlets** out of **total 306 combined outlets** which are followed by the second largest mall - **Ammanora Mall** having **127 franchised outlets and 58 non-franchised outlets out of total 185 combined outlets.**

5.1.4 The Economic significance of franchising business in India

Franchising has been contributing to the country's economic growth in several ways like employment creation, enabling access to goods & services and the expansion of India's tax base. In India the franchising concept is growing at a significantly high pace since the year 2007- 2008. This is primarily because the Indian entrepreneurs who are risk-averse, assumes franchising as the largely viable option to tap and capture country's huge consumer market. KPMG in India has estimated that In India the franchising business activities are to the tune of USD 13.4 billion in the year 2012 and it is further expected to achieve CAGR of almost 30 percent over the next 5 years down the line. This constituted to approximately 1.4 percent of the India's GDP in the year 2012.

All the relevant data analysis, facts and figures with reference to the growth and development of Franchising business in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.1 - H0: There is a low development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations.”

Thus, “Alternative Hypothesis No.1-H1: There is a considerable development of Franchising business in India as compared to the significantly high development of franchising business in the developed nations is Accepted.”

5.2 FINDINGS AND CONCLUSIONS RELATED TO CONFLICTING ISSUES & CHALLENGES FACED BY THE FRANCHISOR (Ref. Objective No.4, No.5 & No.8; Hypothesis No.2, No.3 & No.4)

There are several causes of friction/conflicts that exist between the franchisees and franchisors which in case not properly addressed at the initial stage itself, can have the potential to cause a possible rift between both the partners in franchising. This can further lead to worsening of business.

Franchisee’s opinion on Conflicts:

Present research has led to conclude that the Franchisees have felt that the Misinterpretation of issues is the least frequently observed which is followed by Fees Remittances, Training issues, Communication issues, Profit Margins, Marketing issues, Compliance with the Conditions of Agreement, Maintenance of Quality Standards, Excessive Control, Lack of Support, Territory issues and lastly the Stock & Supply issues respectively.

Franchisor’s opinion on Conflicts:

Present research has led to conclude that the Franchisors have felt that the Training issues is the least frequently observed followed by Communications issues, Maintenance of Quality Standards, Lack of support, Stock & Supply issues, Excessive Control issues, Fee Remittances issues,

Misinterpretations of Issues, Marketing Issues, Compliance with the Conditions of Agreement, Profit Margins and finally Territory Issues respectively.

5.2.1 Student's t-Tests on Conflict Parameters

Student's t-Test was performed on every parameter under Conflicts category in which data was collected from both the Franchisees and the Franchisors, both of whom were asked to state their opinion on various conflict parameters with the help of a suitable Likert scale.

The results of Student's t-test carried out have concluded that there exists a significant difference of opinion between the franchisee and the franchisor with respect to following 12 parameters under the conflicts category.

1. Lack of Support
2. Communication Issues
3. Misrepresentation of issues
4. Compliance with the Conditions of the agreement
5. Training Issues
6. Territory issues
7. Maintenance of Quality Standards
8. Marketing issues
9. Profit margins
10. Stock & Supply Issues
11. Fee remittances
12. Excessive control

All the relevant data analysis, facts and figures with reference to the Conflicting issues existing amongst the Franchisees and Franchisors in Pune region as collected through the

Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.2 - H0: There doesn’t always exists conflicting issues between Franchisor & Franchisee.”

Thus, “Alternative Hypothesis No.2 - H1: There always exists conflicting issues between Franchisor & Franchisee.” is Accepted.

Also,

Hypothesis No.3 H0: There is no significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors stands rejected

Thus, Alternative Hypothesis No.3 H1: There is a significant difference of opinion about various conflicting issues/ parameters in franchising between the franchisees and franchisors is Accepted.

Also,

All the relevant data analysis, facts and figures with reference to the Conflicting issues existing amongst the Franchisees and Franchisors in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.4 – H0: Conflict resolution between Franchisor & Franchisee dos not assume a significant importance for the success & growth of Indian franchising business.”

Thus, Alternative Hypothesis No.4 - H1: Conflict resolution between Franchisor & Franchisee assumes significant importance for the success & growth of Indian franchising business.” is Accepted.

5.3 KEY CHALLENGES IN FRANCHISING

It has been found that both franchisees and franchisors keep facing certain operational or financial related challenges before and during the firm’s operations. It has been found that increasing rentals and the falling profit are some of the principle reasons for the attrition in the franchising business activities.

5.3.1 Franchisor’s View – The Operational Challenges of Franchisees

- i. Capital Constraints
- ii. Location
- iii. Recruitment of right talent
- iv. Retaining Employees
- v. Rentals

Real Estate space has shown to be facing one of the biggest franchisee challenges during their operations. To set up franchised businesses in the selected locations and higher rental payments are the key challenges being faced. Besides these, the other types of challenges being faced by the franchisees are deploying the right kind of talent and adequate funding of the business operations.

5.3.2 Franchisee's View – The Operational Challenges of Franchisees

- i. On-going Market support
- ii. Capital constraints
- iii. Location
- iv. Rental – High real estate prices
- v. Recruitment of Right talent
- vi. Retaining employees
- vii. Appraisal system followed by the Franchisor

While high rentals and finding proper locations are biggest challenges that are faced by franchisees, recruitment of the right talent & their retention is also found to be an important concern for the franchisees.

5.3.3 Operational Challenges in Franchising

- i. Recruitment of skilled talent by the Franchisees
- ii. Concerns related to Payments
- iii. On franchisor's part, it is guiding the franchisees to maintain brand value & quality standards at mutually agreed levels.⁸
- iv. To maintain stocks of items at agreed levels

There are numerous and varied challenges in franchising operations like the aspects related to daily operations (keeping of the optimum level of the inventory, recruitment of the employees

etc.).However, the one of the main concerns amongst the franchisors is about the payment of revenue shares as mutually agreed upon in the initial phase of the business operations. In certain instances, a few franchisees, sometimes, tend to under-report the sales revenues which might end up making possible losses for the franchisors.

5.4 FINDINGS AND CONCLUSIONS RELATED TO LEGAL ISSUES IN FRANCHISING (Ref. Objective No.2 & No.3; Hypothesis No.5, No.6 & No.7)

The success of franchising is closely associated with the support being rendered by the country to the franchise system primarily with respect to handling of the legal/regulatory issues of franchise business in India. However, due to the lacking of specific law related to franchise in India, the various entrepreneurs who have taken franchisees of different international, national & local franchisors face numerous difficulties/problems and hence strongly feel that there is a need for a dedicated, comprehensive and more specific franchise law in India to regulate and control the franchised business activities for the purpose of its seamless functioning.

5.4.1 Need For Regulations In Franchising

The following situations necessitate for having regulations in franchising:

1. Franchisor being the initiator of an agreement may make it in his favor and in turn unfavorable for its franchisee.
2. Sometimes, a franchisor may take back the successful franchised unit a given geographical territory. In such a situation, the franchisee remains to be deprived of the rewards for the hard efforts in upbringing of the unit.
3. The franchisor may promise its franchisee to provide certain support system before offering a franchise. However, franchisor may not keep up with the promise that it has made once the franchisee starts its business operations.

4. Sometimes franchisors continue granting its franchises extended territory limits without taking due care about the same. This severely affects the business share of certain franchisees.
5. It has been observed that not all the franchisees follow the clear guidelines which are given by the franchisor.
6. Certain specific issues those are related to the franchising would have been handled appropriately in the court of laws when there is existence of dedicated and specific laws related to franchising.
7. Existence of specific laws and regulations does help for the removal of confusion in the minds of all the stakeholders viz. franchisees, franchisors and the end consumers.
8. Entire franchise eco-system can become robust, self-reliant and devoid of any fears or concerns when dedicated and specific franchise related regulations control and support its operations.

5.4.2 Regulation of Franchising Abroad

Most of the advanced countries of the world have formulated specific laws to regulate franchising activities in their respective countries. For example, in the United States, the prospective franchisee owners must comply with the amended version of Federal Trade Commission's ("FTC") Franchisee Rule, which requires franchisees to make twenty-three specified disclosures under the Franchise Disclosure Document ("FDD"), which also must be kept updated on a regular basis. Moreover, 15 states in the United States have their own laws regarding disclosures to be made by prospective franchisee owners. Similarly, franchisees in Australia must mandatorily comply with the Franchising Code of Conduct (FCC), which is regulated by the Australian Consumer and Competition Commission (ACCC).

The United States of America stands out as a pioneer of franchising. Today, the legal environment in USA is influential and conducive for the healthy growth of franchising.

California State in USA was the pioneering state to have the first franchise specific law known as 'California Franchise Investment Law, 1970'. Later, a number of other states went on developing their own franchise regulations. These laws have a special mentioning in the

context of the ‘disclosure requirements’, ‘registration related requirements’ etc. At the Federal level in United States of America In 1979, the Federal Trade Commission, enacted ‘Rules on Disclosure Requirements and Prohibitions Concerning Franchising and Business opportunity Ventures’. This step was an initiative taken by the US government for safeguarding the interest of the franchisee. This rule has regulated the information that the franchisor is required to disclose to its prospective franchisee before getting in to the franchise agreement. This enables the franchisee to take an informed decision while entering into the franchise agreement. Further, The North American Security Administration Association (NASA) has adopted a ‘Uniform Franchise Offering Circular’ (UFOC) which regulates the information that is required to be disclosed by the franchisor to its franchisee.

The developed countries such as the US, Japan and Australia and the developing countries like China and Malaysia have their own specific and comprehensive franchise legislations that are in practice in their respective country. However, certain developed countries such as the UK and Singapore including the developing countries like India, Thailand and Philippines are still not having a dedicated and specific law that regulates the franchise system in their respective country. The countries which are not having separate and specific franchise law are entirely relying upon various associated laws to regulate and control the franchising business activities.

5.4.3 Legal Issues in Franchising from Indian Perspective

Growth of any business, to a certain extent is based on the legal support that it gets in the country where it operates. Legal environment or the regulatory framework in a country binds the operations of concerned business and aligns it in right direction.

The major hurdle in the growth of a vibrant franchising industry in India is the lack of any specific regulation and importantly the absence of a specific legislation for regulating franchising business activities. The legal system existing in India is not so sound. It is the need of the hour to take appropriate steps in order to regulate and control franchising business activities in India.

Some of the important Acts, Policies or the Government regulations which are applicable to the business activities in India are as mentioned below:

- i. The Sale of Goods Act, 1930 (Amendment, 1994 and later in the year 2002).

- ii. The Indian Companies Act, 1956 (Amendment, 2013).
- iii. Consumer Protection Act, 1986 (Amended in 2002).
- iv. Minimum Wages Act, 1948 (Amended in 2017).
- v. Agricultural Policy.
- vi. Industrial Policy.

There is no any existence of specific and dedicated franchising law for governing and controlling franchising business activities in India. Therefore, different laws in India which are relevant to franchise agreement and operations of franchise system of business are being made applicable. These all various laws which are relevant to franchised business/ industry forms the basis to regulate and control the franchise business activities in India. These are as mentioned below:

1. Law of Contract
2. Intellectual Property Right Law

The laws related to intellectual property transfer in India are:-

- The Trade Marks Act, 1999 (Amended in 2010)
- The Copyright Act, 1957(Amended in 2012)
- The Patent Act, 1970 (Amended in 2005)
- Geographical Indications of Goods (Registration & Protection) Act, 1999 (Amended in 2006)
- Designs Act, 2000 (Amended in 2010)

3. Consumer Protection Law
4. Law of Competition and Unfair Trade Practices
5. Law of Torts
6. International Business Laws
7. Law of Weights and Measures
8. Corporate and Securities Laws

9. Insurance Laws

10. Industry Specific Laws

11. Taxation Laws

Since, revenue generation through franchise business is a taxable income the following laws related to tax becomes applicable.

Income Tax Act, 1961 (Amended in 2018).

Black Money and Imposition of Tax Act, 2015.

Wealth-Tax Act, 1957 (Amended in 2015).

Issues related to employees and labors are handled by special labor related laws which are applicable to franchise business. Following is the list of such labor related Laws.

- i. The Minimum Wage Act, 1936 (Amendment, 2017).
- ii. The Apprentices Act, 1961(Amendment, 2014).
- iii. The Workmen's Compensation Act, 1923(Amendment, 2017).
- iv. The Factories Act, 1948(Amended, 2016).
- v. The Industrial Disputes Act, 1947(Amendment, 2016).
- vi. The Employees PF Act, 1952(Amended in 2014).
- vii. The Employees State Insurance Act, 1948(Amendment, 2017).
- viii. The Maternity Benefit Act, 1961(Amendment, 2017).
- ix. The Payment of Bonus Act, 1965(Amendment, 2015).
- x. The Payment of Gratuity Act, 1972(Amendment, 2017).

Thus, the absence of one specific franchising law in India makes it mandatory for both the partners involved in franchise business to adopt a many different laws to form a consolidated agreement by taking in to account all the legal issues that may arise during the course of business operations.

5.4.4 The Franchise Contract

Franchising business has been tightly governed by elaborate and formal contracts unlike many other type of business systems. In franchising business, the contract does matters in a true sense.

The important situations when the Franchisors enforce the franchise contract:

A well-established franchisor that has built-up a network of franchisees can go on enforcing the franchise contract taking in to consideration following points:

- a. Franchisees having the practice of sourcing from the supplier of its own preference instead of the suppliers which the franchisor has already approved.
- b. Failing to maintain the ambience and outer appearance of the outlets by the franchisees.
- c. Violation of the franchisor's SOPs and other quality norms by the franchisees.
- d. Franchisees failing to pay marketing and advertising fees or even the franchisor's agreed royalty.

When it is particularly costly to enforce, franchisors are more likely to overlook a violation. This is more probable in the following circumstances.

- i. The franchisees have a very dense, tightly knit network among themselves. Hence, the franchisor fears a reaction of solidarity, with other franchisees siding with the violator.
- ii. The violator is a central player in the franchisee's network—with one exception, to be presented below.
- iii. The franchisor suffers from performance ambiguity, meaning its information systems are not sensitive enough to be sure of the situation. Such a franchisor cannot monitor well and, therefore, cannot be sure its case against the violator is strong.
- iv. The franchisor has built strong relational governance, in which the system operates on norms of solidarity, flexibility, and exchange of information. Such a franchisor does not want to risk ruining these norms, and has other ways to deal with the violation in any case.

These are the costs of enforcing the contract. But under certain circumstances the benefits of enforcement outweigh them. The franchisor is more likely to take punitive action to enforce its contract when:

- a. The violation is critical, such as missing a large royalty payment or operating a very shabby facility in a highly visible location. This is particularly the case when the franchisee is a central player in the network. Ordinarily, central players are protected (as noted above) because the franchisor fears a system backlash, but when a central player violates the contract in a critical way, franchisors choose to enforce because it sends a strong signal that the rules are the rules.
- b. The violator is a master franchisee, that is, has multiple units. Here, the risk is that the violation propagates across this franchisee's units and becomes a large-scale problem if the franchisor does not enforce the contract.

5.4.5 Franchise Agreement

Franchise Agreement is a legal document that enlists the rights and obligations of the franchisor and the franchisee which are entering in to the franchise relationship. The agreement is usually made in writing and is signed by both the parties to franchise business.

A franchise agreement should achieve 4 fundamental objectives as give below:

1. It should clearly set out the rules to be observed by both the parties involved in franchising arrangement.
2. Given the absence of specific franchise law/legislation, it should contractually bind the franchisor and the franchisee.
3. It should seek to protect the interests/benefits of both the franchisor and the franchisee as well as the intellectual property of the franchisor
4. To provide clear terms and conditions which are mutually agreed upon by both the Franchisor and the Franchisee.

As a general practice, since the franchise agreement is drafted by the franchisor's legal advisor/lawyer, it has been observed to be more favoring and is also biased towards the franchisor. Hence, the franchisee needs to take enough care while signing the agreement/contract to avoid the associated risk.

Thus the strongly worded franchise agreements assume utmost importance & vitality in franchised business arrangements. However several times the franchise agreements tend to include clauses which are not strictly necessary to protect the system but may be an attempt to favor the franchisor alone.

5.4.6 Master Franchise Agreement

A master franchise is appointed to expand the franchise business internationally or in the far flung and remote regions. Master franchise has the responsibility to develop & grow the franchisor's business in an exclusive territory allocated to it. It has the right to further subdivide the territory according to the business needs suitably. The responsibilities of a master franchise include recruiting sub-franchises within its area, training them and carrying out all the responsibilities of the franchisor. A separate master franchise agreement that is different from the franchise agreement discussed earlier needs to be formulated. This agreement should list the master franchise's obligations to the sub-franchises in addition to its obligations towards the franchisor. The important clauses which are covered in such master franchise agreements are mentioned as follows:

1. Well defined business development plan
2. Recruitment process of sub franchise
3. Training and associated support services to be provided by the franchisor to the franchisee
4. Franchise fees and royalty to be paid by the franchisee to its franchisor
5. Detailed franchise agreement with the sub-franchisees

Besides an agreement with the main franchisor, the master franchise has to enter into specific agreements with each of its sub-franchisee. Since the master franchise will be acting as an agent of the main franchisor to license the use of the brand name, trademarks and other intellectual property of the franchisor, it is made obligatory to get the draft agreement to be entered with the sub-franchisees approved by the franchisor.

The franchise agreement between the master franchise and its sub-franchisees is similar to the franchise agreement discussed above. There is a special mention of the main franchisor as the

owner of all the intellectual property of the franchise system and his rights to protect the brand, trademarks, patents etc. Normally, a special clause is added which allows the main franchisor to step in the shoes of the master franchise under certain specific circumstances.

All the relevant data analysis, facts and figures with reference to the Legal issues in Franchising as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.5 - H0: There is no positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising.

Thus, “Alternative Hypothesis No.5 - H1: There is a positive relationship between growth of Franchising business and Rules & Regulations/ Legal aspects regarding Franchising is Accepted.

5.4.7 Problems Faced By Franchisees Due To Lack of Specific Franchise Law in India

For the principle reason of unavailability of specific Franchise Law in India, regulation of franchise system of business depends largely upon the multiple laws applicable to the franchising business activities in India. This scenario may pose a threat to the hassle-free and smoother development of the economics of franchise business in India. At the micro level, it also creates certain problems for the franchisees. It has been proved from the research done in this regard that –

The Problems faced by franchisees due to lack of specific franchise law in India have a significant impact on the satisfaction of franchisees.

The result of Exploratory Factor Analysis (EFA) has led the researcher to deriving four factors from 16 variables used in the EFA analysis as follows:

1. Legal Problems
2. Relational Problems
3. Business Problems

4. Trust & Faith Problems

Factor 1: Legal Problems

Legal Problems comprises of 4 elements which states four problems faced by the franchisees due to the lack of franchise law in India. They are closely associated with each other, and thus form an integral part of the first factor named as “Legal Problems”.

The components of **Legal Problems** are:

1. Franchisees feel that it is tedious to draft the franchise agreement because of the applicability of multiple laws in India.
2. Specific problems which are related only with franchising cannot be handled in court.
3. Since one has to rely completely on applicable multiple laws, starting up of franchise unit gets delayed.
4. Franchisees feel that since specific law does not exist for franchise regulation in India, it becomes very difficult to handle certain issues in the courts.

Factor 2: Relational Problems:

Relational problems are derived from four problems closely related with franchisor-franchisee relations and hence these are termed as “Relational Problems” which comprises following components:

The components of **Relational Problems** are:

1. Franchisees feel that the Franchisor does not co-operate with the franchisees. 2.
2. Franchisees get confused as to whom to approach in the instances of any mistreating to them by the franchisor.
3. Franchisees feel that they are neglected by the franchisors.
4. Franchisees are dissatisfied with the type of franchisor relations they are in to in the franchised business.

Factor 3: Business Problems:

Business Problems are obtained through EFA and comprises five problems faced by the franchisees due to the lack of specific franchise law in India. This factor is termed as “Business Problems” and comprises of following issues that a franchisee may come across:

The Components of Business Problems:

1. Franchisees feel that due to the lack of regulatory framework in India, there is certainly a negative impact on the growth of the franchise industry.
2. They feel the agreement favors the only the franchisor and it's biased towards the interest of the franchisor.
3. Franchisees feel helplessness as there are no proper regulations to protect their interests.
4. Franchisees face many difficulties in the regular business operations of franchised unit.
5. Franchisees feel that there is no platform/ authority where they can comfort themselves in case of disputes.

Factor 4: Trust and Faith Problems:

Trust and Faith problems comprises three elements and is named as “Trust and Faith Problems” as mentioned given below:

The Components of Trust and Faith Problems:

1. Franchisees feel doubtful about the authenticity of the agreement as their own involvement in drafting the franchise agreement is negligible.
2. There exists a sort of insecurity in their mind constantly.
3. They slowly tend to lose trust upon the franchisor.

Thus from the results of an Exploratory Factor Analysis (EFA), a total of 16 variables are reduced and compressed into 4 major factors. The factors namely, ‘Legal problems’, ‘Relational Problems’, ‘Business problems’ and ‘Trust and Faith’ problems are considered as independent factors which influences a dependent variable called ‘Dissatisfaction of Franchisee towards franchise system’.

The results of Regression analysis led the researcher to conclude that with a significant constant value, the factors such as Legal problems, Relational Problems and Business problems have been found to be the significant factors at 5 % significance level. However, the Trust and Faith problems are found as insignificant factors.

All the factors are shown to be having a positive impact on the dissatisfaction of the franchisees i.e. if there is an increase in the Legal/Relational/Business problems then there will be a significant increase in the dissatisfaction level of the franchisee towards the franchised business.

With a significant constant value, Legal problems, Relational Problems and Business problems are also found to be significant factors at 5 % level of significance. However, the Trust and Faith problems have been found to be insignificant factors.

Thus, Hypothesis No.6- H0: Problems faced by franchisees due to lack of specific franchise law in India does not have a significant impact on the satisfaction of franchisees stands Rejected with respect to the Legal problems, Relational problems and Business problems. However, it is Accepted with respect to the Trust and Faith problems.

5.4.8 Need for Specific Franchise Law in India

Since there are numerous reasons which actually contributes to the problems faced by both the parties in the franchised business there is a strong need to have a specific and comprehensive franchise law to regulate the franchised business activities in India. The present study has made an attempt to prove that India needs its own specific and comprehensive franchise law rather than depending upon multiple laws and their relevant provisions.

The results of the regression analysis has led to the conclusion that-

Therefore, the Hypothesis No.7-H0: There is no significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India is thus Rejected.

Thus, the alternative Hypothesis No.7-H1: There is a significant impact of inadequacy of franchise law in India and the business problems associated with it on the need for a specific franchise law in India is Accepted.

5.5 FINDINGS AND CONCLUSIONS RELATED TO SUCCESS & FAILURES ANALYSIS IN FRANCHISING SYSTEM (Ref. Objective No.6 & No.7; Hypothesis No.8)

In the instances where the franchisees due to certain valid reasons faces failures in their business, for them it means more than simply the loss of their investment that has been put in. Sometimes, it may turn out to be the loss of their livelihood itself. More specifically, for a franchise business there is no other issue that is more difficult to cope up with than their failures in their business. But even in franchising business system, failures in business are not uncommon.

Generally it is seen that franchises have lower failure rates than a stand-alone business. The reasons include the proven methods and support that franchisors provide to new franchisees.

Overall, there remains a fact that the franchising industry has considerable level of failure rates. Various estimates have shown that about 75% of the franchisors which are launched in the 1980s in the USA have survived for less than ten years or so. Apart from the high performing franchisor such as McDonald's, several other formats of making business and brand names have vanished from the business. Many of these business firms have gone to build on to a substantial size over a number of years of their operations before their collapse started. Even though a few of the franchisors failed inspite of their best efforts put in, the others failed mainly because they started to defraud their franchisees, just as they might defraud any other investor.

Evidences so far have indicated that the success forecasts the success. The older the system and the more units it has, the greater are the chances of not going out of the business. The established franchisors may offer the most expensive franchises to the prospective franchisee, but they are also carrying lower risk of system failure. Evidence shows that 4 years is a threshold and that the

franchise systems which are minimum 4 years old have a significantly lower probability of going through the failures than does the relatively young franchise business systems.

Any failure in the business brings with it all of the emotional stages of the loss which includes a kind of embarrassment, helplessness and anger as well. Regardless of whether it is warranted or not, some of the anger that the franchisees experiences will naturally be directed toward the franchisor and may even results in getting in to undesirable litigations.

In certain larger franchise business systems, the loss of a single franchise location may be so immaterial that it will go most of the times unnoticed whereas, at the same time, in smaller franchise business systems the loss of a single franchise could be potentially devastating.

Of course, any set business could close its operations for the possible reasons, but trying to understand the main reasons for failures in business might help reduce the chances that it will happen again in the future. In franchising business, weakness can happen to be found on either side of the franchisor-franchisee association that could result in a possible failure of franchisee's business. Failures in franchise industry keeps happening, unfortunately though, and the failures are usually associated with one or more of the various possible reasons as mentioned in the following paragraph.

5.5.1 Causes of Failure in Franchising

The

failure of any particular franchise system is likely on account of the failure in the management of the business at the unit level itself. The failure to properly manage and operate any business is the principle cause of business failure. When one examine the cause of many business failures, the seed of their destruction may also be found in the decisions made before the business even started.

The 4 common reasons for failures prior to opening of the franchisees are as mention below:

- i. Poor site selection
- ii. Inadequate financial resources
- iii. Inadequate working capital

iv. Excessive debt service obligations

The fact remains that the franchisor recruited and approved the franchisee into the system. They put forth efforts to help the owner of the franchisee succeed in its business giving considerations with reference to following important points:

Providing the franchisee with ongoing support:

- i. Specifying the supply chain
- ii. Approving their location
- iii. Training the franchisee
- iv. Designing and updating the franchise system
- v. Creating the marketing programs used by the franchisee
- vi. Determining the products and services the franchise would sell

None of these gives an impression that the franchisor was responsible for the franchisee's failure as the franchisor does not run the business for the franchise. Instead, that is the franchisee's sole responsibility. But

understanding why a unit failed is the responsibility of the franchisor. If a franchisor does nothing else, it should use a franchisee's failure as an opportunity to improve the franchise system and look for ways to reduce the chance that it will happen in the future.

5.5.2 Principle reasons due to which franchise businesses fail and which any entrepreneur should avoid:

1. Poor franchise model.
2. Unrealistic business plan.
3. Insufficient working capital.
4. Mismatched Expectations
5. Distracted and unfocused ownership.

6. Lack of System based operations in place
7. Poor selection of Location/Site by the franchisee
8. Not Maintaining the SOPs
9. Lack of training and support:
10. Inadequate Marketing Program
11. Tighter Profit Margins
12. Exploitative mindset or high-handedness
13. Failure to Follow the System
14. Inadequate demands from franchisees by the franchisors
15. Failure to Evolve
16. Unwilling to learn on Franchisee's part
17. Over Promising
18. **External factors:**
 - i. Regulatory controls
 - ii. Industry changes
 - iii. Volatile and Unfavorable Market Conditions
 - a. Volatile market conditions
 - b. Unfavorable market conditions

5.5.3 Analysis of Non-Operational / Closed Down Franchisees in Pune City

Alongside the additions of the new franchisees in Pune region there has been a closure of some franchisees that has been seen in Pune region for various reasons.

The analysis of Operational Vs. Non-Operational Franchisees in Pune region is shown in the Table 5.1 as given below.

Table 5.1: Operational Vs. Closed down Franchisees in Pune

Sr.No.	Status	Nos.	Percentage
1	Operatioal Franchisees	5454	95.10%
2	Closed down Franchisees	281	4.90%
	Total	5735	100%

Source: Primary Data

The above Table 5.1 shows that there are 4.9% of the total franchisees which are close down their operations for various reasons.

The Sector -wise Operational Vs. Closed down franchisees in Pune & Surrounding is shown in Table 5.2 and Table 5.3 as given below.

Table 5.2: Sector-wise Operational Vs. Closed down franchisees in Pune & Surrounding Areas

Sr. No.	Franchise Sector	Operational Franchisees	Closed Down Franchisees
1	Retail & Lifestyle	1172	40
2	Food & Beverages	1502	114
3	Healthcare & Beauty	792	19
4	Education	515	54
5	Support Services	1473	54
	Total	5454	281

Source: Primary Data

Table 5.3: Sector wise percentage of Operational Vs. Closed down franchisees in Pune & Surrounding Areas

Franchise Sector	Operational Franchisees	Closed down Franchisees
<u>Retail & Lifestyle</u>	1172	40
Percentage	<u>96.7%</u>	<u>3.30%</u>
<u>Food & Beverages</u>	1502	114
Percentage	<u>92.95%</u>	<u>7.05%</u>
<u>Healthcare & Beauty</u>	792	19
Percentage	<u>97.66%</u>	<u>2.34%</u>
<u>Education</u>	515	54
Percentage	<u>90.51%</u>	<u>9.49%</u>
<u>Support Services</u>	1473	54
Percentage	<u>96.46%</u>	<u>3.56%</u>

Source: Primary Data

The above Table 5.2 and Table 5.3 shows that franchisee closure is seen maximum in Education sector (9.49%) followed by Food & Beverages (7.05%), Support Services (3.56%), Retail & Lifestyle (3.30%) & finally the least closed down franchisees are found in Healthcare & Beauty sector (2.34%).

5.5.4 Principle reasons for the closure of franchisees in Pune region

Following are the principle reasons for the closure of franchisees in Pune region:

1. Mismatched Expectations.

2. Low Profitability
3. Improper Location
4. Financial problems of franchisee
5. Lack of support from the franchisor
6. Franchisee closed due to closure of Mall
7. Personal problems of franchisee
8. Strategic decision by the franchisor to close the franchisee
9. Strategic decision by the franchisor to close the franchisee due to merger with other company.

Principle reasons for the closure of franchisees in Pune region and their percentages are shown in the Table 5.4 as given below.

Table 5.4: Principle Reason For the Closure of Franchisees in Pune Region

Sr.No.	Principle Reason For closure of Franchisees in Pune Region	No.of Closed down Franchisees	% of Total no.of Closed down Franchisees
1	Mismatched Expectations	38	13.52
2	Low Profitability	65	23.13
3	Improper Location	19	7.76
4	Financial problems of franchisee	18	6.41
5	Lack of support from the franchisor	17	6.05
6	Personal problems of franchisee	41	14.59
7	Franchisee closed due to closure of Mall	18	6.41
8	Strategic decision by the franchisor to close the franchisee	22	7.83
9	Strategic decision by the franchisor to close due to merger with other company	9	3.20
10	Unknown Reason	34	12.10
	Total	281 Nos	100.00%

Source: Primary Data

5.5.5 Core Values of a Successful Franchisee

Successful franchisees are observed to be sharing a set of common core values that normally transcend their own personality and business ethics. Seven critical core values of a successful franchisee, in order of their importance are:

- i. Positive Attitude for Success
- ii. Attitude towards Employee Involvement
- iii. Strong Drive
- iv. Independence
- v. Sales Orientation
- vi. Responsiveness to Customers
- vii. Social Orientation

5.5.6 Critical success factors in Franchising

- i. Growth in terms of number of Franchised outlets opened
- ii. High level of Cooperation between franchisor and franchisee
- iii. High levels of franchisee motivation
- iv. Low levels of Conflict between franchisor and franchisee
- v. Sharing of risk between franchisor and franchisee
- vi. Adequate support by the franchisor to the franchisees in the day to day operations
- vii. Stricter control of the franchised operation by the franchisor
- viii. Low capital requirements for expansion by the franchisor
- ix. Deployment of adequate training to the franchisees
- x. High levels of Sales Turnover
- xi. Growth in terms of market share
- xii. Market penetration of marginal/distant locations through franchising
- xiii. Customer awareness of your company being a "franchised" Operation
- xiv. Awareness of your company being a "franchised" operation in the in the business community.

5.5.7 Examples of Successful Franchising

Franchising got established initially in the fast food market, where operational speed and efficiency, buying power of the consumers and brand popularity/ awareness made a magnificent impact to the overall sales revenues and the profitability of the franchised networks. However, it soon got spread to the retail and lifestyle operations as well as to the education and health care sector. Today couriers, doctors, chemists, clinical laboratories, beauty parlors, laundries, car maintenance, florists, real estate, even schools and educational institutions and many other types of operations have adapted franchising business model for their business expansion.

Some of the industries where franchising has proved to be successful in India are as mentioned below:

- i. Computer/ IT Education
- ii. Pre-Primary Education
- iii. Coaching Institutes
- iv. Restaurants and Fast Food
- v. Bakery Food
- vi. Greeting Cards
- vii. Retail Watches
- viii. Retail Shoes
- ix. Retail Clothing
- x. Retail Tyres
- xi. Medical Clinics
- xii. Medical Laboratories
- xiii. Chemists
- xiv. Beauty Parlors/ Saloons, Health Clinics
- xv. Travel
- xvi. Florist
- xvii. Courier
- xviii. Laundry
- xix. Car Wash

- xx. Fitness Centers
- xxi. Telecom
- xxii. Ice-creams & Coldrinks
- xxiii. Jewelry
- xxiv. Sweet Mart
- xxv. Tea
- xxvi. Café outlets
- xxvii. Takeaway Foods

There are many examples of franchising success stories existing today and the researcher has given the details of 11 such success stories namely- Jumboking, Eurokids, DTDC Couriers services, Dr. Lal Pathlabs, Tanishq, Amul, The Raymond Shop, Aptech Ltd, Subway, Patanjali Aurveda, Airtel etc.

5.5.8 Issues That Can Affect The Success Or Failure Of A Franchise

- i. Franchisor and franchisee motivation
- ii. Franchising feasibility
- iii. Brand image
- iv. Duplication
- v. Profitability and costs
- vi. Pilot implementation
- vii. Culture

5.5.9 Risk management:

Risks involved in this nature of enterprise need to be addressed. The main risk is the failure of the franchise. This could result from various spheres. First, failure could possibly come from an unsuitable location and competition within the vicinity. In addition, there could also be failure due to poor working conditions between the franchisee and its employees on one side and the

franchisor and its employees on the other side. This could ruin the future of the franchise and the long-term success of the franchise network. In such cases the franchisor would put in place measures such as induction for franchisee and its employees, training such as teamwork, communications, customer relationship, marketing, etc. and communications such as a regular newsletter, annual meetings, etc. In this way the franchisor can build up initial relationships and also guard against disputes, present and in the future. Minimizing the risk would be a major requirement of any franchise. Thus, quality of service issues is needed to be addressed.

5.5.10 Quality issues:

Both the franchisee and franchisor should be aware of quality requirements and some of the possible quality gaps which need to be addressed. Not only are they linked to the risks faced by the franchisee but also they are linked to the operations and performance of the individual franchisee. The franchise agreement puts the onus on the franchisee to undertake such operations and actions that are deemed necessary to fulfill his/her part of the franchise agreement. The franchisor must ensure the franchise agreement places a duty on the franchisee to exercise careful quality control over any products or components it sources. One franchisee failing to maintain quality levels can put the whole franchise network at risk of failure.

Franchisor has to regulate what the franchisee does or take action. In the service industry, e.g. fast-food restaurants and international courier services, which normally have large franchised network, quality control can be very difficult and hence a comprehensive 'code of conduct' would be necessary in such situations. Additionally, the franchisee is required to prepare regular and timely financial and other relevant reports that will be stipulated in the franchise agreement.

5.6 OTHER ISSUES IN FRANCHISING

The specific other issues which can lead to arising of disputes from the perspective of the franchisee are as mentioned below:

- i. The agreement and territory related issues
- ii. The excessive control exercised by the franchisor
- iii. The issues pertaining to the stock.

For success in franchise business, it is important that the relation between franchisor and franchisee endures through thick and thin. Imperfect partner selection in franchise business may lead to disputes and increased management conflicts. Several studies support the fact that franchisee satisfaction is rationale behind the success of franchising venture. With higher level of franchise satisfaction, there is high boost of morale, greater cooperation, less termination of relationships, reduced litigations and fewer efforts to pursue protective legislation.

All the relevant data analysis, facts and figures with reference to the Success and Failure analysis as well as Legal issues in the franchising business in Pune region as collected through the Primary data and Secondary data led the researcher to Reject the “Null Hypothesis No.8 - H0: Failure rate of the Franchisees in India is more as compared to the Success rate of the Franchisees.”

Thus, “Alternative Hypothesis No.8 - H1: Failures rate of the Franchisees in India is less as compared to the Success rate of the Franchisees ” is Accepted.

5.7 LIMITING FACTORS FOR FRANCHISING BUSINESS ACTIVITIES IN INDIA

Given below are the most common limiting factors for the growth of franchising business activities in India:

- i. Unavailability of cheap retail space.
- ii. Political instability.
- iii. Huge investment.
- iv. Underdeveloped infrastructures.
- v. Unavailability of a proper regulatory/legal framework/system that protects the intellectual property rights.

- vi. Contractual obligations to be abided by.
- vii. Facing the entry barriers.
- viii. Low income levels of the consumers.
- ix. Relatively high exit cost.
- x. Lacking of the necessary brand awareness among the consumers.

PART – B: SUGGESTIONS AND RECOMMENDATIONS

5.8 SUGGESTIONS AND RECOMMENDATIONS

(Ref. Objective No.9)

Based on the detailed analysis, findings and conclusions the researcher has brought forth following important suggestions and recommendations.

1. The prospective franchisees must be **passionate enough** should have **in-depth understanding** of the franchising business that they are getting in to for their business expansion **in order to avoid any failures** and make their business venture a successful one.
2. There should exist a well-defined legislative framework such as -“**The Franchise Law**” in India to control and govern the franchising business activities that will enhance the growth & sustenance of franchising business in India.
3. It is much needed that both the parties involved i.e. Franchisee as well as Franchisor must thoroughly read and **understand various Terms of Franchise Agreement in order to avoid the controversies or conflicting situations** that will enable them to achieve healthy relationship, business growth and sustenance.
4. It is suggested that **conflict resolution should be done as quickly as possible** by both the parties involved in franchising amicably enough so as to achieve business continuation and mutual growth and sustenance.

5. **There should exist a formal “Local Franchise Association”** of all the Franchisees operating in Pune region in order to address the prevailing issues/conflicts and any other relevant issues and take the franchise business activities of Pune region to a next level.
6. FranchiseIndia and Indian Franchise Association should held **frequent “ Trade fairs and Exhibitions in Pune region and other parts of India** for increasing the awareness of various new franchised brands available in the market and existing as well as future franchising opportunities.
7. **It is suggested that there should be availability of a comprehensive “Franchise Guide and Directory” of all the franchisees and franchisors operative in India , Maharashtra and Pune region separately** which will serve as an immense help and ready reference for the new and aspiring entrepreneurs who are willing and planning to set up their franchised outlets.
8. **Young graduates and postgraduates should stop searching for jobs elsewhere and try getting in to setting up their own business ventures by adopting suitable franchisees** of well-known brands available in the market.
9. The prospective franchisees **should seek the guidance of the concerned established organizations such as “Indian Franchise Association”, “FranchiseIndia and “De Asra Foundation”** at the start of their venture as well as during their franchised operations in order to solve any difficulties arising during setting up their franchisee and thereby making their business venture hassle-free and successful.
10. Franchisors **should help their franchisees to reduce the fixed costs in a way to improve the financial viability of the franchisees** and make them focus on short-term cash flow as well as ways to build the long-term sustainability in to their business.
11. Franchisees **should be desirous and planning for opening other similar franchised units in order to become multi-unit franchisees** for multiplying their sales revenue & profitability.
12. Franchisors **should plan for having a comprehensive “Franchise Management CRM Database”** which will enable them monitoring, controlling & reporting of their franchisees in an easier & more accurate way.

13. Franchisors **should opt for “Digital marketing through the use of Social media”** in order to grow and expand their business.

14. Franchisors **can think of getting the necessary help and support from the “External Marketing Experts”** in the situations where they are not fully confident of promoting and marketing their business in the franchise industry.

15. Franchisors **should always think of offering “something unique” to their franchisees** in the form of either product features or associated services or training part that will differentiate them significantly from the other competing franchisors.

16. New entrepreneurs aspiring of buying a suitable **franchisee can take the advantage of “Pradhan Mantri Mudra Yojana” as well as various other financial schemes** offered by the central and state government for the aspiring entrepreneurs.

17. Pune region is expanding at a rapid pace with coming up of the new areas at the outskirts with the addition of adjoining villages in to the Municipal Corporation region. **The Franchisors as well as Franchisors should take the cognizance of this growing market and suitably take advantage of setting up their franchised businesses in such new upcoming areas.**

18. The newly formed national brands as well as **Pune’s local brands should take utmost care and responsibility with respect to their Product Quality, Service Level, Delivery, Housekeeping, Hygiene and other features like customer relationship & earn thus trust and reliability in their brand** that will enable them to take their brand to newer heights and thus enhance the business expansion and growth.

19. The new as well as established **franchisees especially in Retail & Lifestyle and Food & Beverages sectors should adopt innovative approach for marketing their franchisee.** Also, they should come up with **seasonal promotional offers to their customers** for further improvisation of their overall sales revenue & profitability.

20. Popular local F & B brand like **“Yewale Tea” and “Premacha Chaha” should look for setting up franchisee outlets at busy Camp and Fergusson College Road** areas where there is good business potential.

21. Popular Healthcare brands like **“Hilamalaya”** and **“Patanjali Ayurveda”** can tap the opportunity of setting up franchisees at potential areas like **Rasta Peth and Camp areas**.
22. There are no franchisees of **Pizza Hut, Domino’s Pizza and McDonald’s** in the busy areas like **“Swargate”**. Entrepreneurs can take a note of this and tap the franchising business opportunity of the aforementioned well-known international food brands.
23. Popular F & B brand like **“Domino’s pizza”** and **“Burger King”** does not have franchised outlets in **Camp areas where there is very good potential** and thus grab the business opportunity in this area.
24. Entrepreneurs can tap the lucrative **business opportunity of opening franchised outlets of “McDonald’s” or “Pizza Hut”** in **Koregaon Park area** where there is no presence of such popular F & B outlets in this area.
25. There are many popular local brands who have not yet opted franchised system for their business expansion such as - **Budhani Wafers, Laxmi Narayan Chivada, Kayani Bakery, Hindustan Bakery, Dorabji Biryani, PNG Jewelers, Kalyan Bhel, Garden Vadapav, Cake Studio & Café, Jayhind Store, Jumpstart Pre-school, Srikrishna Ice-cream, Kapila Kathi Kabab, Vaishali Restaurant, Bhavnagari Sweets** etc. It is recommended that these popular brands should think of going for franchising way in order to expand and achieve enhanced business growth and profitability.

5.9 CONTRIBUTIONS OF THE STUDY

The systematic study done in the present research work has been useful and contributed in many ways as follows:

- i. The research study has brought about an in-depth understanding of the growth of franchising business activities in Indian franchising industry with a special reference to Pune city and surrounding areas.
- ii. The study has put forth various conflicting issues existing among various Franchisors and Franchisees in the Indian Franchising business.

- iii. The study has brought out the different ways adopted for the conflict resolution by the franchisors and franchisees.
- iv. This research study has highlighted the understanding of various legal aspects of franchising & legal issues prevalent in Indian franchising industry.
- v. The research undertaken has thrown light on the Success and Failures happening in the Indian Franchising business and its possible reasons and various contributing factors responsible for such Successes and Failures.
- vi. Based on the research outcome the study has contributed by way of giving suggestions and recommendations to the various stake holders of franchising industry in India.

5.10 SCOPE FOR FURTHER STUDY

- i. A detailed and separate study of franchising for each sector like Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education, Support services etc. can be done.
 - ii. This study pertains specifically to Pune region. However, further scope exists to carry out research in franchising at state level or National level basis.
 - iii. Scope exists to carry out detailed study of franchising in other emerging sectors also apart from the ones selected for the present study.
 - iv. There also scope exists for carrying out an in-depth study in legal aspects of franchising business.
 - v. There exists further scope for research in managerial policies and practices as well as operational practices adopted in the franchising business.
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ANNEXURE – I

Franchised Business in India

QUESTIONNAIRE FOR FRANCHISEES

Part - A: Personal Information

1. Name of the person interviewed -
2. Age of the person -
3. Qualification –
4. Experience –
5. Name of the Franchisee –
6. Type of Franchisee -
7. Age of Franchisee –
8. Nature of Business of Franchisee (Retail & Lifestyle/Food & Beverages/Healthcare & Beauty/Education/Support Services etc.) –
9. Location (address) of the Franchisee –

Part - B: Regarding the Franchisee's Business details

1. Information about investment -
2. Infrastructure –
3. Working Capital –
4. Total Sales Turnover (annual) –
5. Total Profit earned (annual) –
6. No.of Franchisees associated –
7. Products/Items Served by the Franchisees -

Part - C: Regarding the Issues/Concerns/ Conflicts between the Franchisor & the Franchisee

Are there any issues/concerns/conflicts between you & your Franchisor with respect to following issues?

Please give your response on a Scale of 1 – 5 (1- Strongly Disagree; 5 – Strongly Agree)

1. Lack of Support -----
2. Communication Issues -----
3. Misinterpretation of Issues -----
4. Compliance with the conditions of the Agreement -----
5. Training Issues -----
6. Territory Issues -----
7. Maintenance of Quality Standards -----
8. Marketing Issues -----
9. Profit Margins -----
10. Stock & Supplies Issues -----
11. Fee Remittance Issues -----
12. Excessive Control Issues -----

Part - D: Regarding the Problems faced by the Franchisee due to the lack of specific Franchise Law in India :

Please give your response on a scale of 1 – 5 (1- Strongly Disagree; 5 - Strongly Agree)

Problems being Faced by Franchisee	Response
1.It is tedious to draft Franchise Agreement	

2.The Specific Problems are not being handled Properly	
3.There is a delay In starting up of your Unit	
4.It is difficult to handle certain issues in Court	
5.You get required cooperation from your Franchisor	
6.You are confused about whom to approach	
7.You are getting due care from your franchisor	
8.You are satisfied with your relationship with your franchisor	
9.You think that there is a positive impact on your Growth	
10.You feel that the things are biased to the Franchisor	
11.You feel that you are somehow helpless about the current situation in your business.	
12.There are difficulties being faced by you during the operations of your franchisee	
13.There is no any platform or authority available to address any disputes in your business.	
14.You feel doubtful about the Terms Of Franchise Agreement	
15.You have some feeling of insecurity of any sort in your mind	
16.You strongly trust in your Franchisor	

What is your opinion that there must exist a specific and dedicated franchise law in India (State whether “Yes” or “No”) -----

Part – E: Regarding the Success Factors for Franchising

Please state your opinion on a Scale of 1 – 5 (1 – Strongly Disagree; 5 – Strongly Agree):

1. There is a growth in terms of number of new Franchisee units being added to your business unit-----
2. High levels of Cooperation between you and your franchisor plays important role in successful franchised business-----
3. High levels of franchisee motivation leads to a Successful franchised business -----
4. There exists Conflicts between you & your franchisor -----
5. There is a sharing of risk between the franchisor and the franchisee-----
6. There is an adequate level of support you receive from your franchisor in every day operations-----
7. There is a Stricter control of the franchised operation exercised by your franchisor on your operations-----
8. Low capital requirements for expansion by the franchisor plays a significant role in successful franchised business-----
9. Deployment of adequate training by the franchisor to the franchisees is critical for achieving success in business-----
10. Achievement of high levels of Sales Turnover leads to having successful franchised association with your franchisor-----
11. Growth in terms of market share leads to your success in franchised business-----
12. You have a market penetration of marginal/distant locations through franchising -----
13. Customer awareness of your Unit being a "Franchised" operation-----
14. Awareness about your Unit being a "Franchised" operation in the in the business community-----

Part - F: Regarding the Satisfaction Level of the Franchisee

- a. Please rate the satisfaction level about the services, support & overall business association with your Franchisor on a scale of 1 – 5 (1 - Very Low ; 5 - Very High) ---
- b. Do you think that your overall business association with your Franchisor is smooth & long lasting? ----
- c. Do you think that there exists a scope for your Franchisor to provide a good support/service to you so as to be able to perform better in your business? ----
- d. What kind of support/cooperation from your Franchisor do you think that is necessary for you to prosper in your business? ----

Part - G: Suggestions/Recommendations

Your Suggestions/Recommendations for the overall improvement in the development/growth of the Franchise business in India:

Signature of the Person interviewed -

Designation of the person interviewed -

Date of the interview –

-----X-----

ANNEXURE - II

Franchised Business in India

QUESTIONNAIRE FOR FRANCHISORS

Part - A: Personal Information

1. Name of the person interviewed -
2. Age of the person -
3. Qualification –
4. Experience –
5. Name of the Franchisor –
6. Type of Franchisor -
7. Age of Franchisor –
8. Nature of Business of Franchisor (Retail & Lifestyle/Food & Beverages/Healthcare & Beauty/Education/Support Services etc.) –
9. Location (address) of the Franchisor –

Part - B: Regarding the Franchisor's Business details

1. Information about investment -
2. Infrastructure –
3. Working Capital –
4. Total Sales Turnover (annual) –
5. Total Profit earned (annual) –
6. No.of Franchisees associated –
7. Products/Items Served catered to the Franchisees -

Part - C: Regarding the Issues/Concerns/ Conflicts between the Franchisor & the Franchisee

Are there any issues/concerns/conflicts between you & your Franchisees with respect to following issues? **Please give your response on a Scale of 1 – 5 (1 - Strongly Disagree; 5 – Strongly Agree)**

- 13. Lack of Support -----
- 14. Communication Issues -----
- 15. Misinterpretation of Issues -----
- 16. Compliance with the conditions of the Agreement -----
- 17. Training Issues -----
- 18. Territory Issues -----
- 19. Maintenance of Quality Standards -----
- 20. Marketing Issues -----
- 21. Profit Margins -----
- 22. Stock & Supplies Issues -----
- 23. Fee Remittance Issues -----
- 24. Excessive Control Issues -----

Part – D: Regarding the Success Factors for Franchising

Please state your opinion on a Scale of 1 – 5 (1 – Strongly Disagree; 5 – Strongly Agree):

1. There is a growth in terms of number of new Franchisees being added to your franchised business -----
2. High levels of Cooperation between you and your franchisee plays important role in successful franchised business-----
3. High levels of franchisee motivation leads to a Successful franchised business -----
4. There exists Conflicts between you & your franchisees -----

5. There is a sharing of risk between the franchisor and the franchisee-----
6. There is an adequate level of support you give to your franchisees in every day operations----
7. There is a Stricter control of the franchised operation exercised by you on your franchisees----
8.Low capital requirements for expansion by the franchisor plays a significant role in successful franchised business-----
9.Deployment of adequate training by the franchisor to the franchisees is critical for achieving success in business-----
10. Achievement of high levels of Sales Turnover leads to having successful franchised association with your franchisees-----
11.Growth in terms of market share leads to your success in franchised business-----
12.You have a market penetration of marginal/distant locations through franchising -----
13.Customer awareness of your brand being a "Franchised" operation-----
14.Awareness about your brand being a "Franchised" operation in the in the business community-----

Part - E: Regarding the Satisfaction Level of the Franchisor

- e. Please rate the satisfaction level about your services, support & overall business association with your Franchisees on a scale of 1 – 5 (1 - Very Low ; 5 - Very High)--
- f. Do you think that your overall business association with your Franchisees is smooth & long lasting? ---
- g. Do you think that there exists a scope for providing a good support/service to your Franchisees so as to be able to perform better in your business? ---
- h. What kind of support/cooperation from your Franchisees do you think that is necessary for you to prosper in your business? ----

Part - F: Suggestions/Recommendations

Your Suggestions/Recommendations for the overall improvement in the development/growth of the Franchise business in India:

Signature of the Person interviewed -

Designation of the person interviewed -

Date of the interview –

-----X-----

**AN ANALYTICAL STUDY OF THE FRANCHISING BUSINESS,
ISSUES AND CHALLENGES IN PUNE REGION (2008 - 2018).**

A Thesis

SUBMITTED TO

TILAK MAHARASHTRA VIDYAPEETH, PUNE

FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY (Ph.D.)

In Management

Under the Board of Management Studies



BY

MR.UMSH G. MALI

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Under the Guidance of

Prof. DR. KACHARDAS P. BAIRAGI

MARCH, 2023

80_Recommendation

SUGGESTIONS AND RECOMMENDATIONS

Based on the detailed analysis, findings and conclusions the researcher has brought forth following important suggestions and recommendations.

1. The prospective franchisees must be **passionate enough** should have **in-depth understanding** of the franchising business that they are getting in to for their business expansion **in order to avoid any failures** and make their business venture a successful one.
2. There should exist a well-defined legislative framework such as -**“The Franchise Law”** in India to control and govern the franchising business activities that will enhance the growth & sustenance of franchising business in India.
3. It is much needed that both the parties involved i.e. Franchisee as well as Franchisor must thoroughly read and **understand various Terms of Franchise Agreement in order to avoid the controversies or conflicting situations** that will enable them to achieve healthy relationship, business growth and sustenance.
4. It is suggested that **conflict resolution should be done as quickly as possible** by both the parties involved in franchising amicably enough so as to achieve business continuation and mutual growth and sustenance.
5. **There should exist a formal “Local Franchise Association”** of all the Franchisees operating in Pune region in order to address the prevailing issues/conflicts and any other relevant issues and take the franchise business activities of Pune region to a next level.
6. FranchiseIndia and Indian Franchise Association should held **frequent “ Trade fairs and Exhibitions in Pune region and other parts of India** for increasing the awareness of various new franchised brands available in the market and existing as well as future franchising opportunities.
7. **It is suggested that there should be availability of a comprehensive “Franchise Guide and Directory” of all the franchisees and franchisors operative in India , Maharashtra and Pune**

region separately which will serve as an immense help and ready reference for the new and aspiring entrepreneurs who are willing and planning to set up their franchised outlets.

8. **Young graduates and postgraduates should stop searching for jobs elsewhere and try getting in to setting up their own business ventures by adopting suitable franchisees** of well-known brands available in the market.

9. The prospective franchisees **should seek the guidance of the concerned established organizations such as “Indian Franchise Association”, “FranchiseIndia and “De Asra Foundation”** at the start of their venture as well as during their franchised operations in order to solve any difficulties arising during setting up their franchisee and thereby making their business venture hassle-free and successful.

10. Franchisors **should help their franchisees to reduce the fixed costs in a way to improve the financial viability of the franchisees** and make them focus on short-term cash flow as well as ways to build the long-term sustainability in to their business.

11. Franchisees **should be desirous and planning for opening other similar franchised units in order to become multi-unit franchisees** for multiplying their sales revenue & profitability.

12. Franchisors **should plan for having a comprehensive “Franchise Management CRM Database”** which will enable them monitoring, controlling & reporting of their franchisees in an easier & more accurate way.

13. Franchisors **should opt for “Digital marketing through the use of Social media”** in order to grow and expand their business.

14. Franchisors **can think of getting the necessary help and support from the “External Marketing Experts”** in the situations where they are not fully confident of promoting and marketing their business in the franchise industry.

15. Franchisors **should always think of offering “something unique” to their franchisees** in the form of either product features or associated services or training part that will differentiate them significantly from the other competing franchisors.

16. New entrepreneurs aspiring of buying a suitable **franchisee can take the advantage of “Pradhan Mantri Mudra Yojana” as well as various other financial schemes** offered by the central and state government for the aspiring entrepreneurs.

17. Pune region is expanding at a rapid pace with coming up of the new areas at the outskirts with the addition of adjoining villages in to the Municipal Corporation region. **The Franchisors as well as Franchisees should take the cognizance of this growing market and suitably take advantage of setting up their franchised businesses in such new upcoming areas.**

18. The newly formed national brands as well as **Pune’s local brands should take utmost care and responsibility with respect to their Product Quality, Service Level, Delivery, Housekeeping, Hygiene and other features like customer relationship & earn thus trust and reliability in their brand** that will enable them to take their brand to newer heights and thus enhance the business expansion and growth.

19. The new as well as established **franchisees especially in Retail & Lifestyle and Food & Beverages sectors should adopt innovative approach for marketing their franchisee.** Also, they should come up with **seasonal promotional offers to their customers** for further improvisation of their overall sales revenue & profitability.

20. Popular local F & B brand like **“Yewale Tea” and “Premacha Chaha” should look for setting up franchisee outlets at busy Camp and Fergusson College Road** areas where there is good business potential.

21. Popular Healthcare brands like **“Hilamalaya” and “Patanjali Ayurveda” can tap the opportunity of setting up franchisees at potential areas like Rasta Peth and Camp areas.**

22. There are no franchisees of **Pizza Hut, Domino’s Pizza and McDonald’s in the busy areas like “Swargate”.** Entrepreneurs can take a note of this and tap the franchising business opportunity of the aforementioned well-known international food brands.

23. Popular F & B brand like **“Domino’s pizza” and “Burger King” does not have franchised outlets in Camp areas where there is very good potential** and thus grab the business opportunity in this area.

24. Entrepreneurs can tap the lucrative **business opportunity of opening franchised outlets of “McDonald’s” or “Pizza Hut” in Koregaon Park area** where there is no presence of such popular F & B outlets in this area.

25. There are many popular local brands who have not yet opted franchised system for their business expansion such as - **Budhani Wafers, Laxmi Narayan Chivada, Kayani Bakery, Hindustan Bakery, Dorabji Biryani, PNG Jewelers, Kalyan Bhel, Garden Vadapav, Cake Studio & Café, Jayhind Store, Jumpstart Pre-school, Srikrishna Ice-cream, Kapila Kathi Kabab, Vaishali Restaurant, Bhavnagari Sweets etc.** It is recommended that these popular brands should think of going for franchising way in order to expand and achieve enhanced business growth and profitability.

CONTRIBUTIONS OF THE STUDY

The systematic study done in the present research work has been useful and contributed in many ways as follows:

- i. The research study has brought about an in-depth understanding of the growth of franchising business activities in Indian franchising industry with a special reference to Pune city and surrounding areas.
 - ii. The study has put forth various conflicting issues existing among various Franchisors and Franchisees in the Indian Franchising business.
 - iii. The study has brought out the different ways adopted for the conflict resolution by the franchisors and franchisees.
 - iv. This research study has highlighted the understanding of various legal aspects of franchising & legal issues prevalent in Indian franchising industry.
 - v. The research undertaken has thrown light on the Success and Failures happening in the Indian Franchising business and its possible reasons and various contributing factors responsible for such Successes and Failures.
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vi. Based on the research outcome the study has contributed by way of giving suggestions and recommendations to the various stake holders of franchising industry in India.

SCOPE FOR FURTHER STUDY

i. A detailed and separate study of franchising for each sector like Retail & Lifestyle, Food & Beverages, Healthcare & Beauty, Education, Support services etc. can be done.

ii. This study pertains specifically to Pune region. However, further scope exists to carry out research in franchising at state level or National level basis.

iii. Scope exists to carry out detailed study of franchising in other emerging sectors also apart from the ones selected for the present study.

iv. There also scope exists for carrying out an in-depth study in legal aspects of franchising business.

v. There exists further scope for research in managerial policies and practices as well as operational practices adopted in the franchising business.
