



ISSN: 2230-9926

Available online at <http://www.journalijdr.com>

IJDR

International Journal of Development Research

Vol. 13, Issue, 03, pp. 62262-62264, March, 2023

<https://doi.org/10.37118/ijdr.26604.03.2023>



RESEARCH ARTICLE

OPEN ACCESS

PCL: WHY FRANCHISING IS A GOOD BUSINESS OPTION ?

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ARTICLE INFO

Article History:

Received 11th January, 2023

Received in revised form

20th February, 2023

Accepted 25th February, 2023

Published online 30th March, 2023

KeyWords:

Franchising.

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ABSTRACT

Franchising (or franchising) is a method of distribution of goods or services involving an expert who creates a trademark or trade name for the brand and business, and usually the franchisor paying the tax is the starting price of the policy. works according to the franchisor's name and system.

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Citation: Khushi Chopra, Khushi D Chopra, Keshav Shah, Lakshay Dungarwal and Khushbu Agarwal. 2023. "PCL: Why franchising is a good business option?". International Journal of Development Research, 13, (03), 62262-62264.

INTRODUCTION

McDonald's has developed to almost 38,000 cafés overall serving right around 70 million clients consistently, generally 1% of the total population who need a burger, french fries and/or chicken tenders at the earliest opportunity, has turned into the most famous family eatery that the two youngsters can appreciate requests to grown-ups too, and formed into the prevailing power toward the finish of the "Fast Service Restaurant (OSR)" market.

The QSR classification incorporates numerous famous establishments like McDonald's

Corp (MCD), KFC and Taco Bell and Wendy's.

In 2019, McDonald's turned into the most important OR (for example low-priced food) chain with a brand worth of almost S 130.36 billion and total resources of \$ 47.5 billion cafés around the world, trailed by Starbucks (SBUX) and Subway.

Generally, McDonald's brings in cash by disseminating its inexpensive food item to franchisees who need to rent, regularly high-edge, properties that McDonald's possesses in 2019 10K, 36,059 of the 38,695 cafés were diversified while McDonald's works the excess 2,636 restaurants.11 Thus, around 93% of complete limit is diversified, that is still below

McDonald's drawn out objective of 95%.

The positive part of this model is that the kind of revenue (rental pay and permit charges from franchisees) is substantially stable and, more unsurprising, while at the same time working expenses are fundamentally less, considering a simpler way to productivity.

You are in charge of land and long haul leases, and you can utilise your marketposition to arrange bargains. As investigators have brought up, this is like a membership, in which the franchisee pays a proper sum every month.

Objectives: The main objective of the study is to help people know the benefits of franchising and why they should opt for franchising. When it comes to starting a business people generally ignore the idea of franchising.

Literature review

The change to a great deal of vigorously diversified plan of action is a component of the semipermanent organisation's methodology. Indeed, in light of the fact that the lease and eminence pay got from franchisees gives a more unsurprising and stable income stream with extensively lower functional costs and dangers. In an extremely way, it's almost similar to McDonald's is presenting a membership plan of action, any place franchisees pay a set amount each month. that delivers McDonald's pay more steady over the long haul. Additionally, the working and benefit getting back from diversifying tasks makes it more straightforward for the corporate to develop its productivity.

METHODOLOGY

While there are many research papers on why franchising is important, we believe that by taking McDonald's as an example it helps the readers to understand our paper better and provide clear conclusions.

Who are McDonald's key partners?

McDonald's plan of action is predicated on 3 central members. Franchisees, providers, and labourers are the piece of the riddle of McDonald's triumphant plan of action. Franchisees are business visionaries that at local level license McDonald's to extend rapidly while maintaining an overall concentration. Providers across the world assurance McDonald's capacity to control at an undeniable level the persistent instructing of workers across the over cardinal thousand cafés round the world permit McDonald's to perform at max throttle.

Understanding McDonald's franchising model: McDonald's plan of action fuses a twofold soul. From one perspective, when it includes its worked eating places, we can in any case choice McDonald's a café business with regards to the diversified eateries McDonald appearance undeniably more kind of a modern land organisation.

Understanding the perform of organisation worked eateries: Straightforwardly in activity McDonald's eateries contributes impressively to our capacity to go about as a trustworthy franchisor. one in everything about qualities of the diversifying model is that the experience from working Company-possessed eateries allows McDonald's to help the activities and achievement, all things considered, though advancements from franchisees are regularly tried and, once suitable, with effectiveness authorised across applicable eating places. Having Company-possessed and worked eateries gives Company staff a scene for eatery activities training experience. Also, in our Company-possessed and worked eateries, and along with franchisees, we tend to be prepared to more create and refine in activity principles, selling thoughts and product and rating ways that may at last benefit McDonald's cafés. As featured inside the 2018 cash reports, the organisation possessed cafés are fundamental for a progression of reasons:

- **Quality as a franchisor:** but would you say you are ready to show others the method for running a café in the event that you don't run it yourself?
- **Experimentation:** organisation possessed eateries change McDonald to check things rapidly, and carry out provided that they need tried to figure on the organisation's intently held cafés to the diversified eateries.
- **Preparing:** organisation claimed cafés conjointly go about as training scenes for diversified eateries.
- **Development:** as McDonald's has full administration of its claimed eateries it can unreservedly advance, and produce these cycles to elective diversified cafés. so processes are regularly audited and improved inconsistently.
- **Control:** the organisation claimed cafés ensure the whole control of cycles, development, and norms that might be applied somewhere else.

Understanding the political economy of the diversified plan of action: a \$37 billion dollar modern land organisation:

As provided details regarding McDonald's cash explanations: Incomes from standard diversified eating places encapsulate lease and eminences upheld a p.c of deals along with least lease instalments, and starting expenses. Incomes from natural cycle licensees and associate cafés incorporate a sovereignty dependent on a percent of deals, and ordinarily incorporate starting charges upon the hole of a substitution eatery or award of another permit. Expenses shift by style of site, amount of Company speculation, assuming any, and local business conditions. These expenses, alongside inhabitation and in

activity freedoms, are specified in establishment/permit arrangements that typically have 20-year terms.

Along these lines, a fair lump of the incomes returning from McDonald's franchisee comes from lease and sovereignties.

As more clarified on McDonald's cash explanations: the following McDonald's standard establishment game plan, the corporate by and large possesses the land and assembling or gets a since quite a while ago run rent for the eating place area and furthermore the franchisee pays for gear, signs, seating and stylistic layout. the corporate trusts that ownership of land, joined with the co-venture by franchisees, allows North American country to accomplish café execution levels that are among the most incredible in the business.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, 2018	2017
Land	\$ 5,521.4	\$ 5,662.2
Buildings and improvements on owned land	15,377.4	14,776.9
Buildings and improvements on leased land	12,863.6	12,509.2
Equipment, signs and seating	2,942.6	3,165.7
Other	488.6	512.4
Property and equipment, at cost	37,193.6	36,626.4
Accumulated depreciation and amortization	(14,350.9)	(14,178.1)
Net property and equipment	\$ 22,842.7	\$ 22,448.3

Key takeaways from McDonald's franchising model

- McDonald's uses a huge diversified plan of action. Starting at 2018, the corporate had 93% of all out eating houses as diversifying.
- Its long objective is 95% of diversified cafés around the world.
- In spite of the fact that incomes have blurred starting around 2013, handle this can be a piece of the change to a weighty diversified plan of action.
- Without a doubt, in accordance with McDonald's cash reports in 2018 Franchised edge bucks portrayed concerning 85% of the joined café edges in 2018, around 80% in 2017, and around 75% in 2016.
- So as McDonald's plan of action fundamentally shift toward a substantial diversified model we would anticipate this aftereffect of diminished incomes and expanded edges.
- That is conjointly on account of anyway incomes are reportable for each stage
- However organisation worked eating houses have higher incomes contrasted with diversified eateries, they offer less to the organisation's gross edges and web pay.
- It's important to get a handle on the critical differentiation between McDonald's organisation possessed café plan of action versus the McDonald's diversified eatery plan of action.
- McDonald's is thought about an eatery business inside the McDonald's organisation possessed aspect of the business.
- In any case, it tends to be viewed as a mammoth modern resources organisation on the diversifying café side of the business. To be sure, in 2018, McDonald's reportable at cost more than \$37 billion in property and hardware, that makes it one of the main modern resources firms on the planet.

FINDINGS AND CONCLUSIONS

Franchising (or franchising) is a method of distribution of goods or services involving an expert who creates a trademark or trade name for the brand and business, and usually the franchisor paying the tax is the starting price of the policy. works according to the franchisor's name and system. Technically, the contract that binds the two parties is a "franchise," but the term usually refers to the actual business in which the franchisee operates. The practice of creating and distributing brands and franchise systems is often referred to as franchising.

Reasons Franchises Fail

Insufficient Support and Training: Startup franchises are more likely to fail than established brands due to insufficient or no training

support. Most new franchisees receive limited training and support with operational issues. General business training is not provided for new franchisees. Franchisors can protect themselves against these problems by making sure they have clear prior knowledge of the nature, content and evaluation of the support and training that will come from the franchisor. You always have the option of looking at another UK dealership if you are not satisfied or if support and training seems necessary.

Bad Business Model: The business model is the foundation of how to run a franchise business. If the business model for a new UK franchise is not developed or clear, it would not be surprising to see the franchise decline. There may also be a business model that regularly registers and loses franchises.

Worry about financial loss: If the low price doesn't provide the profit needed to support itself, it's only a matter of time before the franchisee announces the business. If one franchise fails, it affects all other franchises. When the franchise fails to survive, the franchisee encounters problems in operations such as IT, supply chain logistics and marketing, and eventually the franchisee goes bankrupt. For example, a potential franchise as a fast food or coffee fan may want to find themselves operating a food or coffee franchise in the UK. They may decide to become a business owner because they like the service or product very much. However, there is a big difference between loving a service or product and accepting the challenge of doing business with that service or product. Sometimes franchisees aren't just for business. That doesn't mean they don't care about the brand, product or business. They may not be strong enough to change and grow with the business, or they may not be able to retain or manage their employees. There can be many reasons why they are not suitable for a franchise business.

Lack of preparation: The saying "If you don't prepare, you will be prepared to fail" is very true. Especially when it comes to a franchise business. Still, many franchisors don't care about preparing the business properly before starting a franchise business. It is important to involve the franchisor when planning the business plan.

A detailed and effective business plan is essential for the success of a home business. Seems to be the way to franchise. Show how to make money by accomplishing something important. With the franchisor's assistance and involvement in the plan, the franchisor can work with the business according to the business plan.

Investment returns and insufficient working capital: Businesses do not fail because they cannot make a profit, they go bankrupt because they cannot manage their cash flows. The reason for failure applies to all businesses in the industry, not just UK franchises. If the franchise does not have the necessary resources or lacks resources, it is not surprising that the franchise does not work. If the franchise's regular income does not exceed the exit amount, the franchise will fail.

Poor Business Model: Business model basically provides a framework on the basis of which the franchise is operated. If the business model of the new franchises the UK is underdeveloped or unclear, it may lead to the franchise's failure. Sometimes, it's also possible that the business model drafted is not up to date with today's times, which could also lead to the franchise out of business

The Issue of Insolvency: If the low cost franchises aren't able to run the business in order to generate profits to support themselves, the franchise would soon be in the condition of bankruptcy. If one franchise goes out of funds, it has major affects on all of its other franchises also. The franchisees also face a number of issues when the franchise fails to survive, some of which are operational functions like supply chain logistics, ITs, marketing and many more.

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