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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

A STUDY ON FRANCHISED RESTAURANTS AS A SUCCESSFUL BUSINESS MODEL FOR FRANCHISEES

USHA DINAKARAN
PROFESSOR
DEPARTMENT OF HOTEL MANAGEMENT
CHRIST UNIVERSITY
BANGALORE

ABSTRACT

Though at a nascent stage, the Indian franchise industry has witnessed 30 - 35% growth in the last 4-5 years. Factors like a thriving class of urban consumers possessing sizeable amounts of disposable income combined with the continued growth of the economy have consolidated India's claim to be a viable and beneficial destination for a foreign franchisor. The food and beverage industry is a popular segment for franchisees with roughly 18,000 franchised restaurants spread all across India. 17% of all food and beverage businesses in India are being franchised. The popularity of this industry selection by franchisees could be various reasons - no requirement of specialist skills, high footfalls and sales, easy maintenance, low investments, etc. This paper aims to assess the influential factors for a successful franchise business model with respect to restaurants in India using a primary research employing the questionnaire method. The study will be conducted on a filtered sample of entrepreneurs who own a food business to gain a better understanding on the major issues they face with their food-based entrepreneurial venture(s). It also aims to explore the viability and success of the franchisees with their franchises. These insights can help budding entrepreneurs to assess certain factors carefully before venturing into the franchise restaurant business.

KEYWORDS

Entrepreneurs, food and beverage, franchise, restaurants.

INTRODUCTION

Franchises have always been a favourite for many entrepreneurs who are looking to venture into something of their own and maximizing their earnings and benefits while minimizing their risks and investments. Over the last decade, the food and beverage industry in India has proved itself to be the most popular choice for all franchisors. Franchising is considered to be a sustainable growth strategy for small businesses and young entrepreneurs as it offers a strong platform for raising capital and provides for a method of expanding the business in a low risk manner, with exercised caution.

The Federation of Indian Chambers of Commerce and Industry or FICCI and the Confederation on Indian Food Trade and Industry or CIFTI's 2009 report on the food franchise industry states that "Franchising business is considered to be the leading business in India. It is believed that almost 30 percent of the newly established businesses in India are franchised business. There are roughly 18,000 franchised restaurants in the whole India while there are only 2500 businesses that run by a company. It is estimated that 17 percent of food and beverages businesses were being franchised. Today, there are almost 1200 franchisors in India. 150 of this come from the food and beverages business."

India, which has a growing middle-class of over one billion people, is now positioned as a major force in the global economy and fertile ground for investment in retail and business development. "The franchising industry in India is expected to grow at an annual rate of 30 percent, and to drive the country's current $330 retail sector even higher. In 2007, more than 750 national and international franchisors were operating in India, employing millions of people, and generating revenues in excess of $3 US million." (http://www.franchisedirect.com/foodfranchises/14)

Franchising in the food and beverage industry has evolved tremendously in the past 10 years in India. According to Sameer Kuckreja, CEO & MD of Nirula's, one of India's top food franchise chain, "Franchising requires determination and drive to succeed in the tough competitive scenario and it has huge growth potential. With the fast paced growth in the F&B industry, the entry of numerous food brands in the market, development of new retail formats, the franchising models have also evolved."

As eating out becomes increasingly common in India, restaurant operators across cuisine types want to secure their share of increased consumer spending. This offers a good opportunity to aspiring franchisees in the F&B industry. The customer base is expanding, propensity to eat-out is increasing and national / regional brands have developed their game in terms of food and service quality to meaningfully compete with the international brands.

REVIEW OF LITERATURE

SUCCESS OF FRANCHISE OUTLETS

Franchising was introduced to the real estate and hotel industries during 1955 and began spreading to service industries such as dry cleaning, employment and accounting services (Khan, 1999: 11).

Khan (1999: 11) is of the opinion that the greatest success story in franchising is credited to Ray Croc who sold milkshake mixers to the Mc Donald's brothers, owners of a busy hamburger restaurant in San Bernardino, California. Croc was so impressed with how quickly customers were served at the restaurant; he volunteered to open more restaurants for the brothers in the belief that he could sell more of his milkshake mixers.

In 1955, Croc opened the first Mc Donald's restaurant in Des Plaines, Illinois and founded the Mc Donald's corporation. Mc Donald's has now grown to a chain of over 31,000 restaurants in 119 countries employing more than 1.5 million people.

The extent of franchising as a model for increasing business growth can be summarised by the fact that in the United States "…in 1950 fewer than 100 companies used franchising … by the end of the decade more than 900 companies had franchise operations with an estimated 20,000 franchised outlets" (Khan, 1999:12)

GROWTH OF INDIAN RESTAURANT FRANCHISES

Yum Restaurants India, which runs KFC and Pizza Hut restaurants, plans to invest $100 million (Rs 522 crore) in the country by 2015 and double its stores to 1,000 by then. Burger-and-fries chain McDonald's, which stepped in 16 years back, has about 240 stores now. And for Domino's Pizza, which operates in the country via master franchisee Jubilant FoodWorks' promoted Domino's, India is its fastest growing market outside of the US.

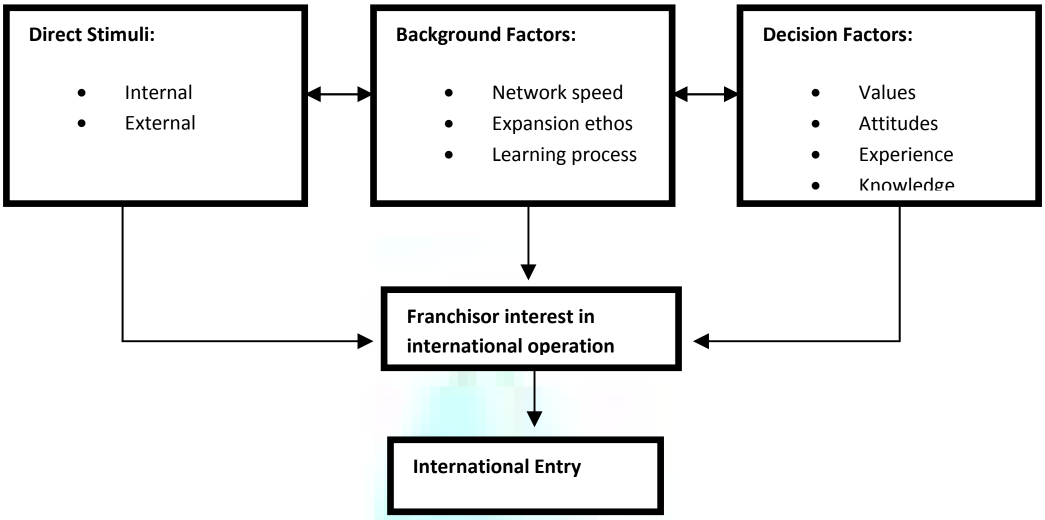
Quick service restaurant chain Subway said it plans to operate 1,000 stores in India by 2015 through franchise route, which will entail an investment of $58 million (over Rs 300 crore). The Connecticut-headquartered brand is present in 50 Indian cities with 263 franchisee-run restaurants across the country. Subway President and Co-founder Fred DeLuca commented on India's market potential saying: "India is a promising business destination with a young, educated population having growing disposable income."

The planned expansion will generate employment opportunities for another 15,000 people, the statement said. "The country will add about 497 million to its urban population from 2010 to 2050, as per United Nations' Revision of the World Urbanisation Prospects Report-2011," it said, adding that this indicates immense opportunity for the QSR segment in India.

MOTIVES BEHIND FRANCHISING INTERNATIONALLY BY WELCH

Welch put forward a simplistic theory and mechanism that aims to understand the motives behind businesses to franchise their outlets internationally. Quinn (1998) cites a theory by Welch that argues that a complex interaction of different factors that affect a business to franchise internationally.The essential factors that carry weight in a company's decision to franchise are direct stimuli, background factors and decision maker's characteristics (Engman & Thorlund, 2008).

FIG 1: CHART REPRESENTING WELCH'S THEORY OF MOTIVES BEHIND FRANCHISING INTERNATIONALLY



Source: Welch, L.S. (1990). Internationalization by Australian franchisors. *Asia Pacific Journal of Management,* 7(2), 101-121.

Welch states that the main premise of this theory is how the background gears up the company for moving and franchising internationally. The three background factors that influence the decision making process for franchising internationally are network spread, expansion ethos and learning process. While the background doesn't necessarily affect the franchising process, it does prepare for the company to move.

Direct stimuli can be internal or external, where internal stimuli are any excess capacity in the firm's resources, or any unique competency. According to Welch (1990), 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 final factor is the Decision Makers. While the stimuli, the company's goals and its environment are crucial contributors to the company's decision to franchise internationally, it isn't complete if the company's individual/employee characteristics like knowledge, value, attitude and experience are equally compatible and consenting.

NEED FOR THE STUDY AND IMPORTANCE OF THE RESEARCH PROBLEM

This study aims to understand the viability and success of a franchise of a restaurant outlet in India. The food and beverage industry in India is constantly growing, and is increasingly becoming a popular choice for franchisees. The underlying rationale for this study is to understand the influencing factors for running a restaurant franchise and probing whether franchising restaurant outlets in India is a successful business model or not.

STATEMENT OF THE PROBLEM

Is franchising restaurant outlets in India a successful business model for young entrepreneurs?

OBJECTIVE OF THE STUDY

To identify the factors influencing sales turnover at franchised restaurant outlets, to assess the problems faced by the franchisees while setting up the outlet and to assess overall satisfaction levels of the franchisees with their franchises.

RESEARCH METHODOLOGY

SAMPLING

A total sample size of 50 was taken for the study. The sample unit consisted of young entrepreneurs who currently own only one franchise outlet. The respondents were residing in Bangalore city.

STATISTICAL TECHNIQUE

The sampling technique used in the research was non-probabilistic sampling where convenient sampling was done.

QUESTIONNAIRE

The primary data was collected by using a qualitative questionnaire prepared earlier. The questionnaire had a total of 8 questions, with 2 questions employing the scaling technique of Likert scale of 5.

PROCEDURE

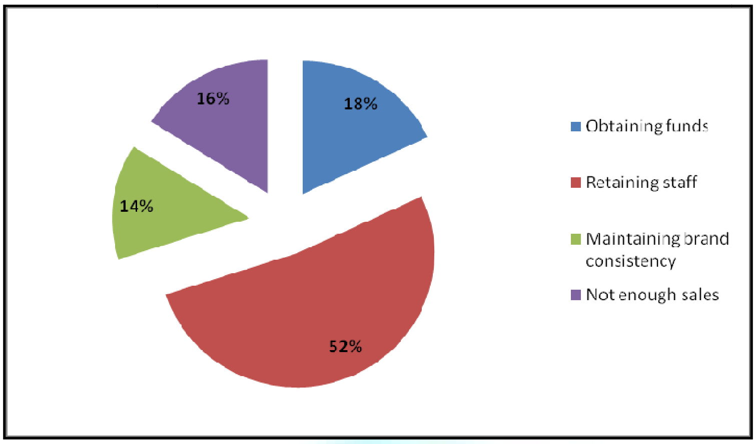
The primary data was collected by questionnaires filled in an online format. Scoring was done by taking the average of the respondent selections for option-based and scaling questions.

RESULTS AND DISCUSSION

52% of the respondents have been running the franchise between 1 to 3 years and 18% have been running it for 3 – 5 years. The key takeaway here is that the franchisees in the sample size are relatively new in this field, which also indicates the growth of the industry that show promise to other budding entrepreneurs as well.

46% of the franchisors own a fast food restaurant/Quick Service Restaurant and 36% own a coffee shop/cafe. The main reason for this could be with the relatively lower investments in a QSR/cafe versus that of a full service restaurant. A QSR/cafe poses limited risks in terms of investment and security as well, and is hence a popular choice.

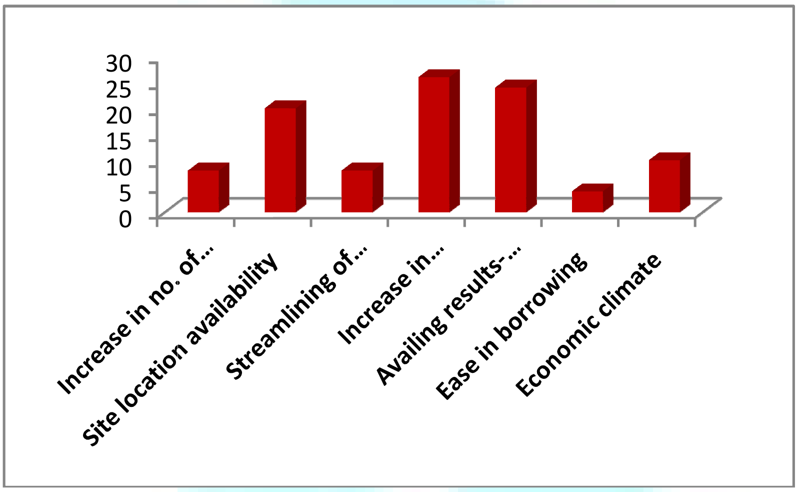
FIG. 2.1: PIE CHART DEPICTING THE MAJOR DIFFICULTIES FACED BY FRANCHISEES WHILE SETTING UP THEIR FRANCHISE OUTLETS



The biggest problem that the entrepreneurs seemed to have faced seems to be staff retention with a whopping 52% claiming it as their toughest turf. With increase in number of service outlets being spawned everyday, and low levels of commitment and volatility of the industry, many staff personnel tend to jump jobs. This comes as a big loss to the franchisees who spend time, effort and money in hiring and training the staff.

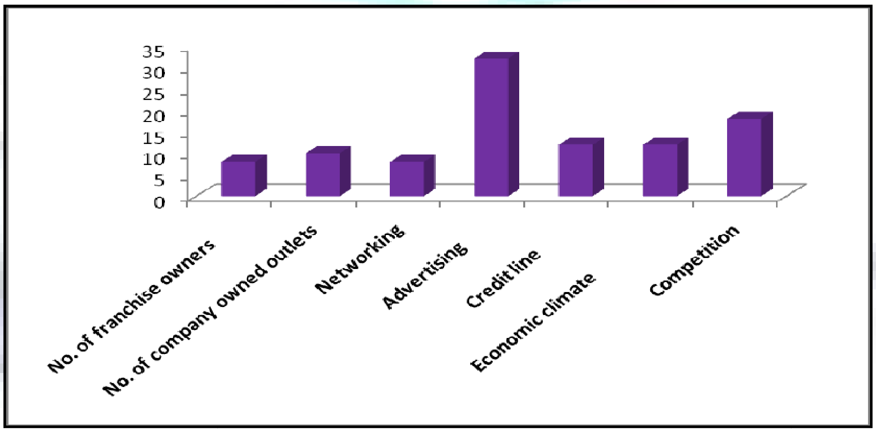
38% of the franchisees had their expected sales turnover levels match their actual sales turnover levels, whereas 24% of the franchisees had their expectations exceeded with the same. With the eating out culture becoming more prominent, higher levels of disposable income and a growing proclivity for international food, the sales numbers at such outlets look to rise constantly.

FIG. 2.2: GRAPH SHOWING FACTORS THAT INFLUENCED TURNOVER FOR THE FRANCHISEES THE PAST YEAR



Out of all the possible factors that contributed to achieving the predicted sales turnover in the last year, advertising seemed to be the biggest influencing factor with 32% of the respondents claiming it to be so. The rest of the factors received a below to an average response with 18% citing competition as another influential factor. Over the years, it's been established how advertising helps build brand awareness and reach out to the masses. Such advertisements do trigger and act as a recall value for the customer to eat out at the outlets often.

FIG 2.3: GRAPH SHOWING FACTORS THAT FRANCHISEES BELIEVE WOULD BE MOST HELPFUL IN ACHIEVING FUTURE TURNOVER PROJECTIONS



Amongst factors that would contribute in achieving next year's projected sales turnover, again 50% have picked advertising as the number one factor. 26% of the respondents feel increase in ad spends would help boost sales and 24% of them feel availing results-related advertising for customers would help as well. Print ads work especially well for QSR's as they create a recall value for the customer to go to the store and dine. Special offers as print ad cutouts tend to exercise higher value with customers, thus underlining the importance of results-related advertising.

A major 52% of the franchisees would like to open another similar franchise outlet. This indicates success of the franchises with these young entrepreneurs and also shows promise and growth for other franchise outlets.

More than 50% of the franchisees are satisfied with their franchise outlets, a factor that is indicative of a high success rate and a promising figure for other young entrepreneurs who are looking to franchise a restaurant outlet.

RECOMMENDATIONS

- **Franchise a qsr outlet rather than a full service restaurant:** While the franchised restaurant outlets are springing up quite often, QSR outlets are bringing increased sales and footfalls, helping these franchises earn more. The investment costs associated with a QSR outlet are a lot lesser than investing in a full service restaurant in terms of training, location, store space, raw materials, kitchen staff, etc. While the margins on the earnings of a QSR are lesser, the volumes are higher. There are also lesser risks associated and management of a QSR outlet is generally easier. From the study, we can also glean that the QSR outlets are the top choices for the entrepreneurs.
- **Recruit the right team:** As can be seen from the findings from the study, hiring the right employees and retaining them is crucial to the franchise, especially since it's in the service industry. It's important to hire the right team and train them well, as well as communicating the objectives of the franchise and the franchisee and help them understand how mutually beneficial attaining those goals would be. The nature of the job seems to ascertain its volatility, especially in the restaurant business. Proper time and effort should be spent in hiring the right employee and adequate communication is to be provided to ensure the staff stay and are retained.
- **Increase ad spends locally:** Majority of the franchisees' responded that ad spends were a major influencing factor in meeting their sales turnover. While international/national ad spends helps boosting the brand itself, it is also important for the franchise to spend locally on advertisements on media like radio, print, even certain outdoor events, etc. This helps reinforce the brand in the consumer's mind whilst also creating a recall value for him/her to dine at the outlet. Print ads with cutout coupons providing a special offer/discount work especially well with fast food chains - this has been exemplified often in the case of Subway, where they have offered a discounted sandwich for a print ad cutout.
- **Take up a master franchise:** If the franchisee can afford it, a master franchise (usually more than 2 restaurant outlets) works out to be a quite beneficial. Firstly, with full understanding of running of operations and products and service offering in the first outlet, there will be a smarter system established in understanding and running the systems in the rest of the outlets. Employees from the first outlet can be moved to the new outlet to make running of the outlet smoother and more efficient. Third, franchising the same brand makes it easier to understand the brand better and maintain its consistency across the outlets. Fourth, with limited franchise options in some areas (not all), it's easier to run your own outlet and make the money rather than a competitor to eat into your business.
- **Invest in social media:** While ad spends are required at all points, one must not underestimate the power of social media. A local business page of a restaurant outlet versus that of an international chain makes sense to helps connect with both the restaurant's current and potential customers. A local business page can customize and communicate its offerings easily to a large number of people. Offers, specials, menus can be shared with the customers as well as online contests can be held where prizes can be redeemable at the outlet. While an offline presence in the media is definitely require to reinforce brand awareness, an online media presence is indispensable for a service oriented brand today.
- **Maintain brand consistency:** Though an entrepreneur with his/her business ideas is running the outlet, it is important to remember that it is a franchised restaurant, which means that there must be consistency in terms of brand, value, message, product and offerings to the customer no matter which outlet he/she goes to. Many entrepreneur often fail to see the distinction between the franchise and their own venture. Their restaurant ideas cannot mix with those of the franchise, as the brand consistency must be maintained across all outlets. While the entrepreneur is allowed to set certain rules about running the restaurant, and can tweak certain offerings according to how locals prefer it, the brand, image, product and overall restaurant feel and appeal must be the same as it is in every other outlet. This is to be especially exercised in QSR outlets.

CONCLUSION

The food and beverage industry in India is one that is continued to grow with rise in disposable incomes and an 'eating out' culture having definitely set in. This has given way for increasing interest from international franchises in India and entrepreneurs taking up the same. With the amount of risks and investments low with a franchised outlet, mainly with restaurants, many entrepreneurs are taking up this opportunity to work on their dream venture.The franchisee benefits from a tried tested and proven business concept, which can dramatically reduce the chances of failure. The study conducted shows high satisfaction levels of the franchisees and willingness to open similar outlets, thus supporting the success of a franchised restaurant business model in India.

SCOPE FOR FURTHER RESEARCH

Further research in this field can be done on the lines of assessing levels of satisfaction in small businesses, studying franchising of fine dining restaurants, exploring co-branded restaurant franchising as a growth strategy for franchise systems and the prevalence of multi unit restaurant franchise ownership and the franchisee management of these systems.

ACKNOWLEDGEMENT

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ANNEXURE

How long have you been running the franchised restaurant outlet?

a. < 1 year
b. 1 – 3 years
c. 3 – 5 years
d. 5 years

2. What type of a restaurant have you franchised?
a. Fast food restaurant
b. Full service restaurant
c. Coffee shop/Café

3. What was the biggest problem you faced with setting up the franchised outlet?
a. Obtaining funds
b. Retaining staff
c. Maintaining consistency of the brand
d. Not enough sales
e. Other (please specify)______________________

4. On a scale of 1 to 5, rate how your expected turnover matched your actual sales turnover in the past year.

5	4	3	2	1
Very much exceeded expectations	Exceeded expectations	Met expectations	Did not meet expectations	Fell short of expectations

5. Which among the following influenced the level of turnover achieved by your business in the past years? Please tick only one.
a. No. of franchise owners/franchisees who franchised the business
b. No. of company owned outlets
c. Changes in business operations
d. Networking, or link up with other franchisors with complementary businesses
e. Advertising
f. Credit line from banks and other sources
g. Economic climate
h. Programs/activities/events sponsored by trade/franchise associations
i. Level of business competition
j. Others (Please specify) ______________________________

6. What factors would be most helpful in achieving your turnover projections in the next 2 years? Please tick only one.
a. Increase in no. of franchise owners/franchisees who would like to proceed
b. Site location availability
c. Streamlining of operations
d. Increase in advertising spending
e. Availing results-related advertising
f. Ease in borrowing
g. Economic climate
h. Government support
i. Franchise-oriented programs/activities/events by trade/franchise associations
j. Others (please specify)______________________________

7. Would you be willing to open another outlet of the same franchise in the future?
a. Yes
b. No
c. Don't know

8. Overall, on a scale of 1 to 5, how satisfied are you with your franchise?

5	4	3	2	1
Extremely satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Extremely dissatisfied

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