

*“To assess the scope of Franchise  
Business: A Young Entrepreneur’s  
perspective”*

A project study submitted in partial fulfilment for the requirement of the two  
years management program 2011-2013

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## **Certificate**

This is to certify that the thesis entitled “**To assess the scope of Franchise Business: A Young Entrepreneur’s perspective**” is the bona fide work carried out by Ishaan Batheja (2k11/MBA/22), student of Delhi School of Management, Delhi Technological University, who carried out the project under my supervision.

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## **Declaration**

I hereby declare that the thesis entitled “**To assess the scope of Franchise Business: A Young Entrepreneur’s perspective**” submitted by me in partial fulfilment of management program to Delhi School of Management, DTU is my original work and has not been submitted earlier either to DSM or to any other institution for the fulfilment of the requirement of the course of study.

I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier / other work done by me or others.

**Ishaan Batheja**

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## **Acknowledgement**

Carrying out a project like this can never be the outcome of the efforts of a single person; rather it bears the imprints of a number of persons who directly or indirectly helped me in completing this project. It gives me immense pleasure, to take the opportunity of expressing my sincere gratitude towards colleagues, mentors and seniors whose sincere advice made my project period educative & pleasant one.

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## Executive Summary

Franchising is the practice of using another firm's successful business model. Franchising, where an entrepreneur replicates a brand's per-unit business model by giving a fee and a share in the revenue, is also favoured by companies across sectors.

Franchising in India is estimated to be worth \$22 billion (about INR 1.2 lakh crore) and is growing at 30% annually, according to data from Franchise India. "There is a lot of entrepreneurial appetite in the country and people have money to invest.

This project is undertaken to study the buying behaviour of young entrepreneurs of Delhi in the Franchise market i.e. what series of steps do they follow before taking the big decision of buying a brand and also to explore the factors that decide the satisfaction level of a franchisee holder. The study also tries to explore the skills and expertise required to run the Franchise business smoothly.

For the research problem relevant information was gathered & a questionnaire was formulated. The survey was initiated and the data were collected from the target group. This study will try to provide more insights into the area of Franchise business and what's the take of young entrepreneurs of Delhi-NCR on Franchise business.

India offers lot of potential for the franchising community & expected to reach US\$ 20 billion by 2013. Franchising is still an emerging trend in India as only 10% of the businesses in India are franchised as compared to 70% in the United States. Education sector which accounts for the maximum portion of the total franchised business in India is only 38% franchised as a sector as a whole. Other sectors like retail, food, healthcare etc. go on similar lines.

The major findings of this study are that franchise is considered as the easiest way to start a business by our respondents. Existence of established brand, well set up infrastructure, lower risk and higher growth opportunities attracts the young entrepreneurs to opt for franchise business instead of starting their own. Food and beverages is the most famous franchise business among our respondent followed by education/training and apparels franchise business.

A franchisee expects a lot of support from its franchisor. To name a few, marketing support, operational support, active communication, and existing infrastructure, which a franchisee demands from its franchisor.

Skills required for the franchisee to achieve success in the franchise business include the management skills, technical skills and networking skills. Expertise required to run the franchise venture in a smooth way includes the financial fitness, risk taking capabilities, profit oriented and the analytical abilities of a person.



# **1. INTRODUCTION**

## **1.1 Franchising**

Franchising is the practice of using another firm's successful business model. The word 'franchise' is of Anglo-French derivation – from *franc* - meaning free. It is a business model in which many different owners share a single brand name. For the franchisor, the franchise is an alternative to building 'chain stores' to distribute goods that avoids the investments and liability of a chain. The franchisor's success depends on the success of the franchisees. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

Essentially, and in terms of distribution, the franchisor is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.

Although there are franchises around products – Chanel and other cosmetics, to name the prominent – by and large, the franchises revolve around service firms. Some franchises are available for a few thousand dollars and there are mid-range franchises like restaurants, gasoline stations, trucking stations which involve substantial investment and require all the attention of a business. There are also the large franchises like hotels, spas, hospitals, etc.

Have you ever wondered how so many IMS institutes are located in every part of India and provide the exact same kind of faculty and material throughout the country? How management of this huge chain of institutes is executed? And how the systems and human resource are maintained? The answer is in just one word- "Franchising"

## **1.2 Franchising Business**

Experts claim that franchising is the fastest growing retailing format in the world. The International Franchising Association (IFA) predicts that future growth in franchising is likely to come from developing markets such as China, India, Pakistan and Russia. This trend is expected to accompany the rapid shifts toward market driven economic reforms.

US is a leader in franchising innovations, a position it has held since the 1930s when it took the major form of fast-food restaurants, food inns and, slightly later, the motels during the

first depression. Franchising is a business model used in more than 70 industries that generates more than \$1 trillion in U.S. sales annually (2001 study).

### **1.3 Franchising in India**

India's liberalization begun in 1991, has brought about far-reaching changes in its economy, the Foreign Direct Investment (FDI) has increased sharply boosting business opportunities and leading to exciting entrepreneurial endeavours . Franchising is in the midst of a market revolution in India and the prospects of the growth in franchising are boosted by an ample supply of energetic, home grown Entrepreneurs making India an exciting market place.

India, with a thriving consumer population, coupled with sustained economic growth, is an exciting destination for the franchising fraternity. Home to over a billion people, including a 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 a viable and beneficial destination for a foreign franchisor. In the USA, almost a third of the retail sales come from franchised outlets, with sales of trillion of dollars while in India, the industry is few million.

Indian Franchise industry has been ranked as the most attractive global market for investment and with all the leading global brands eyeing India as their target market. The concept of franchising has been steadily gaining popularity in India as in the Indian context still huge market is untapped.

An important aspect which determines the feasibility of any franchising business in a country relates to the class of consumers it caters to. India is a multi-ethnic country with the second largest population in the world. Indian consumers have experienced the standard of services offered overseas and have sufficient exposure through media, which has further fuelled their expectations.

Besides that, new age Indian generation has realized the scope of growth in franchising and in today's race for success, many of the aspiring entrepreneurs have decided to join the franchising bandwagon because it is easier, safer and more profitable than struggling for brand identity while running a small enterprise of their own.

Franchising in India is still in its nascent stage. Only 10% of the businesses in India are franchised as compared to 70% in the United States. Education sector which accounts for the maximum portion of the total franchised business in India is only 38% franchised as a sector as a whole. Other sectors like retail, food, healthcare etc. go on similar lines.

Indian franchising story has just started and it has a long way to go, India would be able to do so with its huge population, the growing aspirations and prosperity of the middle class, changing lifestyles, growing entrepreneurial culture, and the shifting of gears to small cities and towns. All these factors will lead to the growth of a WINWIN partnership between the brand and franchisee.

Lakhs of people are choosing franchises as a gateway to a career in entrepreneurship, attracted by the prospect that it provides of the best of both worlds, the safety of an established brand and the independence of running a venture by oneself.

Franchising in India is estimated to be worth \$22 billion (about INR 1.2 lakh crore) and is growing at 30% annually, according to data from Franchise India, the industry grouping. Franchise India's president Gaurav Marya says franchisees have a success rate of 75% in the first five years of operations. For many first-time entrepreneurs it is simpler to launch a new business with such a well-defined framework, said industry experts. Even the Future Group, which does not offer the franchise model for its larger formats like Big Bazaar, launched KB's Fair price last year as a franchise based neighbourhood store. It now has 180 stores.

*"Franchising does not eliminate risk, but it does reduce risks"*

Most franchisors, including Euro Kids, which calls itself India's biggest play school chain, a franchisee has to make an initial investment of between Rs 5 lakh and Rs 10 lakh, with a network of 860 franchisee-schools, handhold the entrepreneur and provide support, including selection of location and infrastructure. Preeti Dua, who operates three Euro kids schools and is aiming for a turnover of Rs 1.5 crore this financial year, apart from the initial investment, she has to pay 25% of a student's fee to the company. There is a ready-to-use curriculum and resources and the company provides help in everything from location selection to training," Preeti Dua, whose business is growing 50% annually.

Franchise India's Marya said sectors like education and beauty care provide the fastest return on investment, especially those models that do not require expensive real estate.

Most businesses directly linked to rising domestic consumption, including food and beverages, clothing and retail offer many franchising opportunities. Larger format stores for clothing as well as food and beverage require higher initial investments. Mahindra Retail's mother and baby care brand Mom & Me requires an initial investment of Rs 85 -90 lakh.

However, smaller formats and kiosk franchises in F&B and retail can be launched with around Rs 10 lakh. Franchising, however, is not always easy and the biggest challenge is raising funds. Most franchisees get a large chunk of their initial funds from family and friends. While bank loans are available, entrepreneurs need to provide collateral in most cases. Equity investors do not back small franchisees as they look for scalable businesses. According to them, it makes only sense to invest in a master franchisee for a well-known brand but not for a single franchise owner.

## **2. OBJECTIVES OF THE STUDY**

The main objective of the study is to explore the outlook of young entrepreneurs towards franchise business in DELHI-NCR. The study includes the followings:

- ✓ To study the buying behaviour of young entrepreneurs in the franchise market i.e. what steps do they follow before taking the big decision of buying a brand, to find answers to questions like what qualities and attributes they look for in a brand and franchiser, what would be an ideal franchise profile for them?
- ✓ To explore the factors that decides the satisfaction level of a franchisee.
- ✓ To study the take of young entrepreneurs on the skills and expertise require running the franchise business smoothly.

### **3. LITERATURE REVIEW**

Franchising is where you buy the rights to a business concept, trademarks & know how. In return you pay a franchise fee and a percentage of your profits. In terms of distribution, the franchisor is a supplier who allows an operator, or a franchisee, to use the supplier's trademark and distribute the supplier's goods. In return, the operator pays the supplier a fee.

#### **3.1 How Franchising works?**

The franchising business model consists of two operating partners: the franchisor, or parent company, and the franchisee, the proprietor that operates one or multiple store locations. Franchising agreements usually require the franchisee to pay an initial fee plus royalties equal to a certain percentage of the store's monthly or yearly sales. Initial fees vary significantly across each industry, like individual has to pay over \$85,000 to open a Hilton hotel in India or Mahindra Retail's mother and baby care brand Mom & Me requires an initial investment of Rs 85 -90 lakh. Royalty fees are also variable - for example, in case of Euro Kids School franchise, individual has to pay 25% of a student's fee to the company, while individual has to pay around 30-40% of student's fee to the company in case of MBA coaching institutes. The franchisee also covers the costs of actually starting and operating the store, including legal fees, occupancy or construction costs, inventory costs, and labour. Franchise agreements usually have a term of between 10 and 20 years, depending on the company.

Additionally, the franchisor provides training and support as well as regional and/or national advertising.

#### **3.2 Indian Franchising industry**

Franchising is at a very nascent stage in India. The industry has clocked the annual growth rate of 30% with a market size of USD 7.2 billion, the second fastest growing industry in world. In the US, 45% of the sales come from franchised business; India is still to reach that stage. India offers lot of potential for the franchising community & expected to reach US\$ 20 billion by 2013. Franchising is still an emerging trend in India. It is still growing and as such, most of efforts by Indian franchisors are still inclined to franchise recruitment and sales unlike in the West where franchise management and ensuring franchisee profitability is the

matter of greater concern. The picture is likely to change with the passing of time and after gaining experience and knowledge in the same domain.

**Few of the important sectors that are thriving well in this industry are:**

**3.2.1 Education Sector:** India, with the largest youth population, is an attractive destination for the potential business opportunities in Education Sector. Its unquenchable thirst for quality education with world class training systems and its desire to fill the wide gap between the number of potentially employable people and corresponding training institutes available has led to a widespread demand for franchised education. This has given rise to the various education operators and service providers such as play schools, schools, institutes, development & training institutes, professional coaching operators etc. According to a survey, the growth of the education sector in the country is pegged at 35% amongst new concepts and it will continue to grow in the years to come. Keeping in mind the current market trends that need to be capitalized in India, the education sector further opens the doors for many entrepreneurs. Looking at the risk and profitable returns variation from business to business, franchising ensures a safe method to own a brand especially in the Education sector which is least effected territory even in the time of recession. Private institutions are typically perceived as hallmarks of quality education and given the demand, Indian education entrepreneur are ready with massive expansion plans, which will provide thrust for the education sector to grow multifold.

**3.2.2 Food & Beverages:** With the increased number of people preferring to eat out and spend more on food items, this sector has dominated the franchising industry like no other business sector. The market is flooded with food franchise opportunities of different categories suiting to different level of budgets. There are many different options for food and beverage franchising, such as fast food, health food, pizza, sandwich shops, ice cream parlour, smoothie, juice bars, cookie shop, candy outlet, and bakery as well as restaurant franchises. The Food & Beverage sector is expected to touch 45% of growth level in the near future. This may not be the least effected territory but is undoubtedly one of the safest ones to go in for.

**3.2.3 Clothing & lifestyle:** Changes in economy and lifestyle all over the globe have led to an increase in sales of clothing, shoes, jewellery and accessories which makes this a great industry to try to get into, particularly on a franchise level. People buy clothing, shoes and accessories quite often based on a brand name. When you buy into a franchise, you are

getting that brand name with it so you are already a step ahead. Thus, this sector offers lucrative franchising opportunities with people willing to spend adequate amount of money on clothes and accessories. As consumers want the best clothes for themselves they are ready to make investments too. Thus, clothing industry will never be out of business if one gets to offer quality products as per the demand of the market. Industry statistics peg the Indian apparel market currently at Rs 1389 billion, growing at a Compound Annual Growth Rate (CAGR) of 12 per cent.

### **3.3 Franchise Regulations in India**

Franchising of goods and services, foreign to India, is in its infancy. The first International Exhibition was only held in 2009. India is, however, one of the biggest franchising markets because of its large middle-class of 300 million who are not reticent on spending and because the population is entrepreneurial in character. In a highly diversified society, (McDonalds is a success story despite its fare differing from the rest of the world. So far, franchise agreements are covered under two standard commercial laws: the Contract Act 1872 and the Specific Relief Act 1963, which provide for both specific enforcement of covenants in a contract and remedies in the form of damages for breach of contract.

### **3.4 Franchise Royalty Fees**

At first glance, it would seem ideal if a franchise does not require a royalty fee. And in fact, there are various franchise opportunities being offered today that do not have royalty fees attached. These opportunities would boast that all you'll need to pay for is a lump sum that pays for your franchise, the start-up inventory and the start-up training. After that, all revenues would be yours. They would say that this is as it should be, and you are most likely to agree.

But should it really be so? A franchise royalty fee is actually the Franchisor's (the owner of the whole franchise) share of your revenues. It is usually around 2% to 10% of your profits. And it is usually part of a franchise package that offers full-time and continual support to the Franchisee. In a nutshell, the royalty fee pays for the value that a Franchisor gives the Franchisee when a franchise contract is engaged in by both parties. First of all, when a Franchisee buys a right to a franchise, he is buying a right to operate using a previously established, and thus known, business. The Franchisee no longer has to start from an unknown entity and build a brand. The brand is all a part of the whole package.



More important than brand, however, a franchise gives a Franchisee access to the operating system of the company. This operating system is composed of all aspects of business operations that have been tried and proven to be effective by the Franchisor. When you take up a franchise, you automatically gain experience that is very relevant to your own business operations through proper and continuous training.

The franchise royalty fee also covers the support that the Franchisor continually gives to the Franchisee. Support refers to immediate and constant access to consultants who can help troubleshoot problems for the Franchisee. This also refers to the advertising and marketing that the Franchisor does for the whole chain. The support system that your royalty pays for makes sure that you're not left floundering.

In a franchise opportunity that has no royalty fee, you cannot expect to get all these benefits even if they were promised. The brand is the least that you could expect. But without the operating system and the support system that the royalty fee ensures you have, this wouldn't count for much in the long run.

### **3.5 Types of Franchise Agreement**

The following are the key methods of franchise arrangements made globally:

- ✓ **Direct Franchising Format:** In this franchising the franchiser grants the franchise to a franchisee by the execution of a contract and has direct control over the franchisee. The franchiser specifies operating guidelines and the policies of the franchiser, the consideration being a periodic royalty. He also provides process manuals, shares expertise, monitors and controls the operations. The advantage is that of getting a readymade and established business format that can be replicated. But the franchisees will have to work strictly within specified compartments with little room for flexibility in operations.
- ✓ **Subsidiary Franchising** Wherever laws and regulations allow foreign organizations to set up their subsidiaries in India, franchising is done through a subsidiary. The franchiser controls the subsidiary directly. The major advantage is that the franchiser is present in the country as a corporate body. The franchise rights for retailing and dealerships are given by the subsidiary office in India, which controls all the processes in retail and distribution.

- ✓ **Regional Franchising or Multiple Franchising** Here the franchiser offers franchise rights to a franchisee only for a region or an area. There are separate franchisees for each area or region in the country. This is also known as multiple franchising when more than one franchisee is given the franchise rights for the same brand. Such agreements offer the franchisee the right to open a multiple number of outlets.
- ✓ **Unit Franchising** The franchiser offers rights to a franchisee to open and run just one store through an exclusive agreement which involves many franchisees. It is very difficult to monitor compliance to specified standards and processes. The strength of this format is that each franchisee pays full attention to his store and its performance.
- ✓ **Master Franchising** Here, the franchiser grants the franchise rights to an entire country or territory and the franchisee is permitted to open franchise outlets and grant sub-franchises to others. Two agreements are generally involved — one that is entered into between the franchiser and master franchisee and the other between the master franchisee and sub-franchisees.

### 3.6 Types of Franchises

**There are four types of franchise businesses:**

- ✓ **The Product Franchise:** With this the manufacturer uses the franchise agreement to determine how the product is distributed by the person buying the franchise. A retail company can be provided with a franchise to distribute, for example, a range of tyres. The franchisee can utilize the brand name and the trademark owned by the manufacturer to distribute or sell the car tyres. The owner of the store will pay the manufacturer a franchising fee or agree to purchase a minimum inventory to sell on to their customers. The manufacturer gets the income from the purchase of the retailer, and/or the franchise fee, and the retailer gets the benefit of the brand and experience of the franchisor.
- ✓ **The Manufacturing Franchise:** The franchisee is permitted to manufacture the products under license and sell them using the originator's trademark and name. They also get the benefit of the national advertising of the product they manufacture. The company owning the product gets the franchise fee and sometimes a fee for every unit sold. Examples include the food and beverage industry.

- ✓ **The Business Franchise Venture:** The franchisee purchases and distributes the products for the franchise owner. A client base is provided by the product owner for the franchisee to maintain. Vending machines are a classic example of this, where the franchisee purchases the vending machines and distributes and services them, taking their share of the takings of the machines.
- ✓ **A Business Format Franchise:** This opportunity is very popular, and involves providing the franchisee a proven business model using a recognized product and brand. Training is provided by the franchise owner and assistance in setting up the business. Supplies are purchased from the franchisor and the franchisee pays a royalty fee. Frequently the franchisor will sell the franchisee the products or raw materials to provide the same quality of product. Most well-known fast food franchises are of this type, and also many jewellers and other ubiquitous High Street names.

### 3.7 Key Success Factors in Franchise

- ✓ **Pre-Tested Model** Franchising earns good results if done by organizations after creating a brand and testing. Retail organizations ought to look at establishing a Company-Owned and Company-Operated (COCO) model successfully before seeking expansion by taking the franchise route.
- ✓ **Transfer of Knowledge** The franchisers, who provide their valuable inputs gained by their rich experience in retailing which includes training, store design and advertising and promotion, will produce good results.
- ✓ **Single Face to Customers:** The franchisee has to carry on his operations by playing the role of the principal brand. The store's image elements and product portfolio have to be carefully maintained. This also includes the upkeep of various standards in the areas of customer service, store presentation, operating processes and store personnel skills which will enable the transfer of the total brand experience to the customer. This seamless integration of the franchiser and the franchisee to present one single 'face' to the customer will ensure successful store operations.
- ✓ **Win-Win Situation** The franchiser gets a partner in the franchise to establish his business and shares with the franchisee such tested technologies, product offerings and processes.

Sharing investments and returns through mutually agreed means will enable the growth of both the franchiser and the franchisee, covering the risks at the same time.

- ✓ **Ownership and Responsibility** Franchisees fail when the franchise retail business is not owned by the franchisee. They often feel that the franchiser has the responsibility of ensuring success. So there must be clearly defined responsibilities for both franchiser and franchisee.
- ✓ **Review** Regular reviews of performance and planning actions for implementation by both parties will ensure successful franchise operations. Besides, such periodical reviews will bring to light gaps in any area of deliverables on the part of either the franchisee or the franchiser that have to be dealt with urgently.

### 3.9 Advantages of the Franchising Model

You get a number of advantages when you purchase a franchise and they form the reasons for you to choose franchising over your own personal business. They are as follows:

- ✓ **Franchise businesses have a much lower failure rate than other start-up businesses:** As you're buying a business concept where most of the kinks have already been worked out by someone else. The business you are franchising is already successful and is a proven idea.
- ✓ **The brand name is already recognized** and the franchisor will himself consider responsible to promote the franchised name or product, which will benefit the franchisee. Starting a business is taken care which includes include trademarks, easy access to an established product; a proven marketing method; equipment; inventory; etc.
- ✓ **You may have exclusive rights to market the franchised products in your territory:** You will get to leverage on the good name and purchasing power of your franchisor when it comes to sourcing your supplies from suppliers.
- ✓ **Systems are already in place:** Franchisors provide their franchisees with various proven systems including financial and accounting systems; on-going training and support; research and development; sales and marketing assistance; planning and forecasting; inventory management; etc.

- ✓ **Some franchisors will help you finance your initial franchise** or may help with site selection, making sure that your business is located in an area where it can thrive. Franchisee will get benefited from various ad and promotional campaigns from the franchisor which would cost you a great deal to develop these materials on your own.
- ✓ **Franchised stores have a higher margin** for the parent company than company-owned stores because of minimal operating expenses in maintaining franchised stores. For example, Dine Equity, Inc. earned a 52.7% profit margin from franchisee-owned restaurants in 2007 while company-owned restaurants operated at a mere 6.7% profit margin.

### **3.10 Drawbacks of Franchising Model**

- ✓ Franchising stores reduces the amount of control that the parent company has over its products and service, which may lead store quality to vary greatly from store to store.
- ✓ Franchisees must pay a percentage of their revenues to the parent company, reducing their overall earnings.

## **4. RESEARCH METHODOLOGY**

### **4.1 Research Methodology**

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. A research design is a frame work or blue print for conducting marketing research project. It details the procedures necessary for obtaining information needed to structure marketing research problems. A research design specifies the nuts and bolts of implementing any approach towards the project.

The methodology adopted in preparing this report is based on responses to the questionnaires by 80 young entrepreneurs or franchise owners, in Delhi only.

Besides qualitative data on some key issues like what steps do they follow before taking the big decision of buying a brand, what would they expect from the franchisor in terms of support and royalty fees etc. Based on both quantitative parameters (such as gender, age of entrepreneur, sector, educational qualifications etc.) statistical measures were computed.

This study explores some of the steps young entrepreneurs often follow before buying any kind of franchise and the skills and expertise required to run the franchise business smoothly.

### **4.2 Research Design**

Research design is based on exploratory and descriptive research methods. For a good market research one has to include both exploratory research and descriptive research in your research design. For this research study I followed both.

Exploratory research is a type of research conducted because the major emphasis of study is on the discovery of ideas and insights. Exploratory research provides insights into and comprehension of an issue or situation. It helps determine the research design, data collection method and selection of subjects.

It includes collection of hard data that already exists about the Franchise business in India. Growth rates, sectors, potential, opportunities, threats, government intervention, news, investment in those sectors are the key points about which information was collected.

Secondary research helped us to understand the market conditions well and also helped in designing the questionnaire as it is the preliminary exploration of the research area prior to main quantitative data collection.

It also helped me to understand the people who are interviewed in the main data collection stage and market that is been researched. Hypothesis generated in this stage can be tested further by understanding quantitative research.

Descriptive research design gave me an actual and a near snapshot of the predefined research objectives .This helped me in associating and correlating the predefined research pedagogy as it is quantitative in nature involving survey using questionnaire and statistical analysis.

#### **4.3 Survey Technique**

The use of quantitative research methodology is more helpful while doing the exploratory research of this type. Although at certain instances, qualitative methods of interviews were also used in order to derive the best of expectations of the clients.

#### **4.4 Sample Size**

A sample of 80 young entrepreneurs was taken to fill the questionnaire. (see annexure I).

#### **4.5 Sampling Method**

A sample design is a definite plan for obtaining a sample from a given population. A sample is the subgroup of population selected for participation in the study. Sample characteristics called statistics are then used to make inferences about population parameter. Convenience sampling method was adopted to choose the respondents. The target group was chosen from Delhi only.

#### **4.6 Data Collection Technique**

Data are the bricks with which the researcher has to make a house. While the quality of research findings depends on data, the adequacy of appropriate data in turn depends upon proper method of data collection. The biggest task of collecting the data for the project was undertaken directly by getting the questionnaire filled from the respondents either through email or interviewing them face to face. The questionnaire attached within the project report.

**Primary Data:** Data which are collected fresh and for the first time and thus happens to be original in character. Primary data are gathered for specific purpose.

**Secondary Data:** Data about the franchise business that is already exist somewhere either on internet, journals, articles or books etc. was collected in order to understand the franchise business in India.

#### **4.7 Structure of Report**

The project report starts with an introduction which contains the objectives of the research problem. Following the research problem, components and research questions are stated. The Methodology followed for research in the project is then explained. Next the analysis of the data collected and the results of the same are given. This is followed by discussions and conclusion of the project.



## **5. DATA ANALYSIS & KEY FINDINGS**

This Research paper explores the outlook of young entrepreneurs of Delhi-NCR towards the franchise business. This research is based on a survey of 80 respondents from Delhi-NCR. By the mean of this study I try to find out the answers to questions like what steps do they follow before taking the big decision of buying a brand, What do they expect from their franchisor, What do they think about the skills and expertise required to run the franchise business smoothly etc.

### **Key findings**

#### **Here are some of our key findings:**

Convenience is the first preference of investors and franchising has become a very convincing business model for anyone to start a business conveniently with all the primary risks covered. Therefore I asked the respondents about their reasons why do they want to get into franchise business instead of starting their own.

## 5.1 Why would you go for a Franchise Business model?

In order to find out what were the underlying factors that affected their decision as an entrepreneur to choose franchise business model, I have asked the respondents to rate the following factors on a 5 point likert scale:

### 5.1.1 Franchising is the easiest way to start a business

Franchising business model has become a very convincing business model for anyone to start a business conveniently with all the primary risks covered.

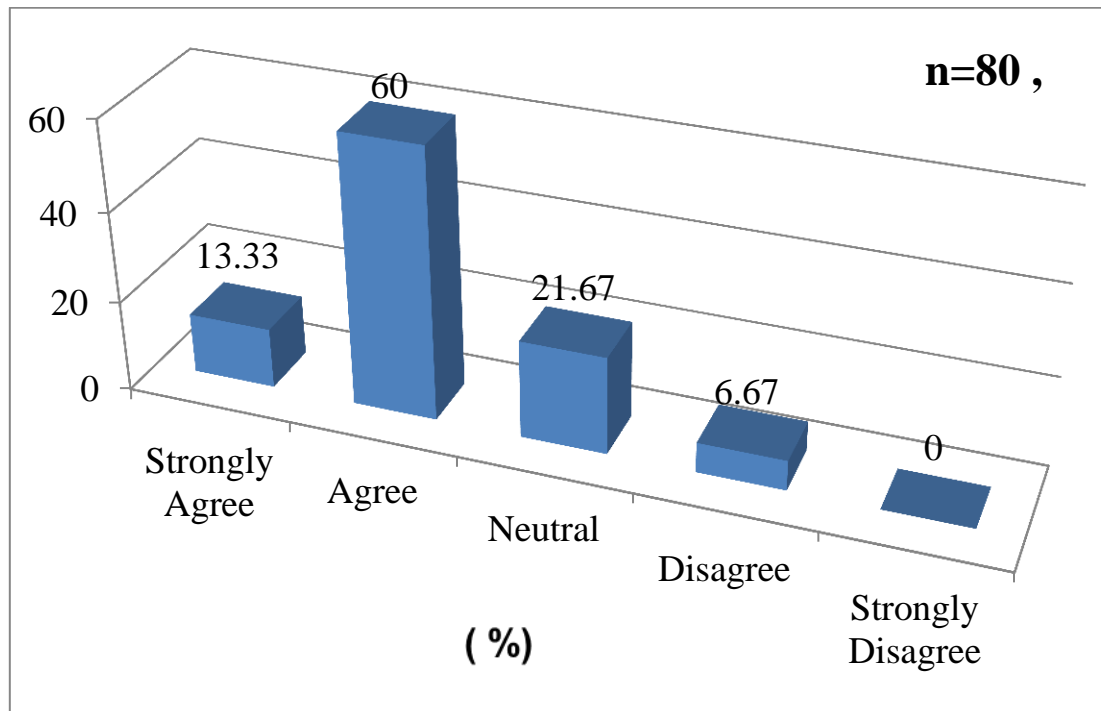


Fig 5.1

#### Interpretation

- ✓ 60% of the respondents interviewed agree with the fact that franchising is the easiest way to start a business, while 13.33% of the respondents strongly believe in convenience nature of franchise business model.
- ✓ Only 6.7% of respondents disagree with the convenience nature of franchising business.
- ✓ 21.67% respondents have a neutral response for the same.

### 5.1.2 I choose Franchising because there is lower risk of failure

Everybody has to take some kind of risk in starting his/her new business, but the question needs to take care is whether the high risk yielded a high return or not.

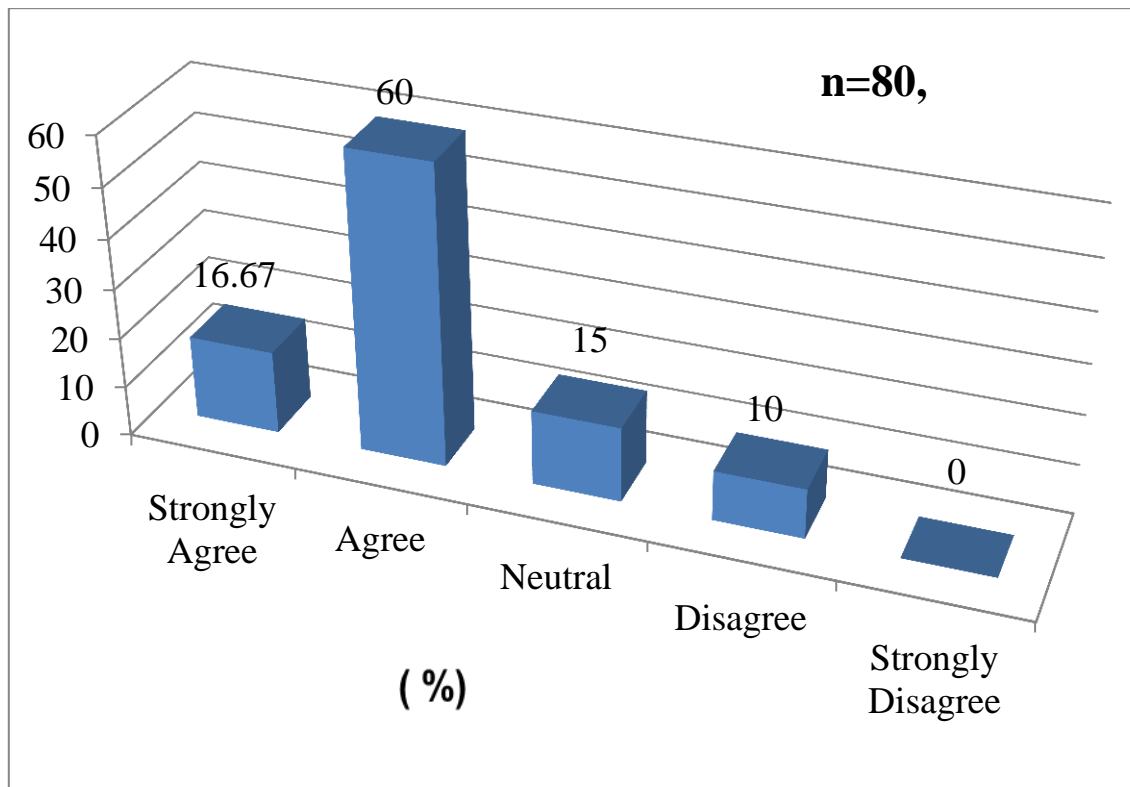


Fig 5.2

#### Interpretation

- ✓ 60% of the respondents support the fact that franchise business offers lower risk of failure while 16.7% of respondents strongly believe in the same.
- ✓ The percentage of respondents who do not believe in the fact is 10%.
- ✓ While 15% respondents have neutral take on the above mentioned fact.

### 5.1.3 I want an established brand than starting on my own

When you're looking to open your own business, building your own unique brand from scratch can seem like an overwhelming identity crisis. By becoming part of a franchise, you get instant recognition from a set of successful core business values, and a road map to success in the industry.

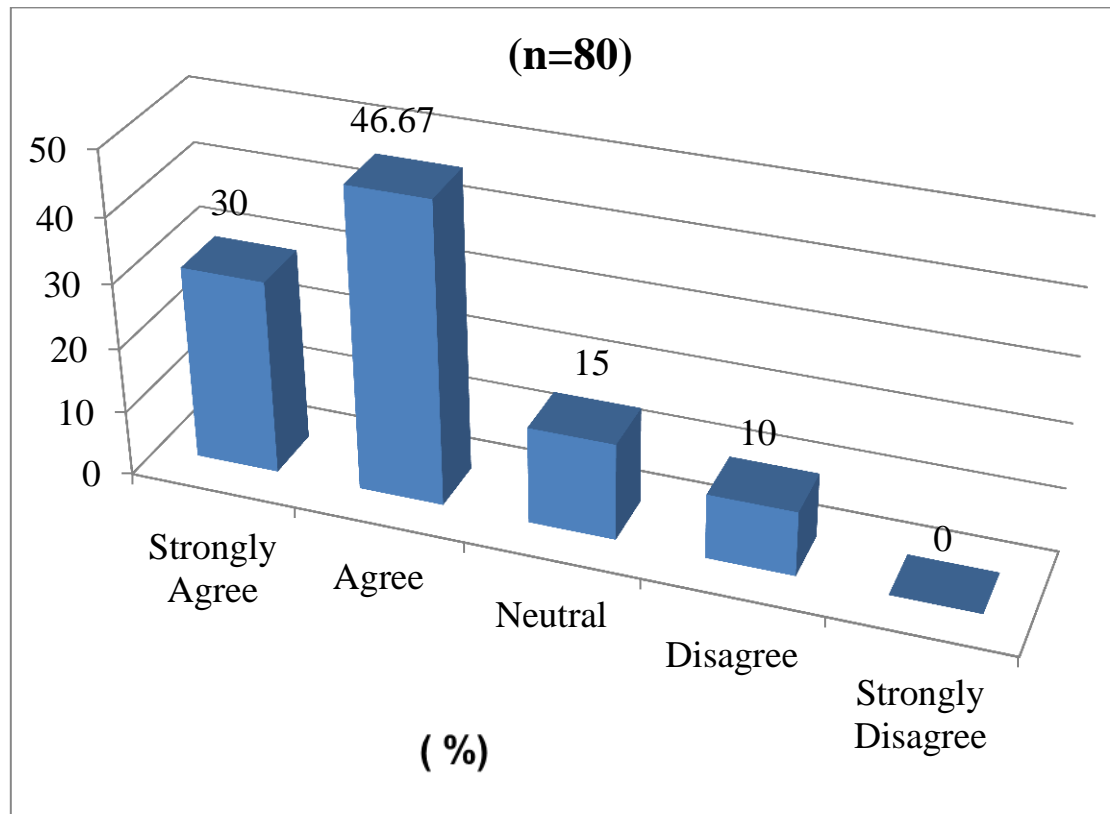


Fig 5.3

#### Interpretation:

- ✓ Starting a brand is the most difficult task for any entrepreneur. Thus, 46.67 wants to get into franchise business as they think working with an established brand would be more beneficial than starting a new one.
- ✓ 30% respondents strongly support the fact.
- ✓ 15% respondents have neutral take on this while only 10% respondents disagree with the fact.

#### 5.1.4 There is higher growth opportunity in franchising than own brand

Each Investor is looking for growth opportunities in what he/she is doing. Same applied to the franchise business, investors are more concerned about the growth opportunity and the future prospects in the business.

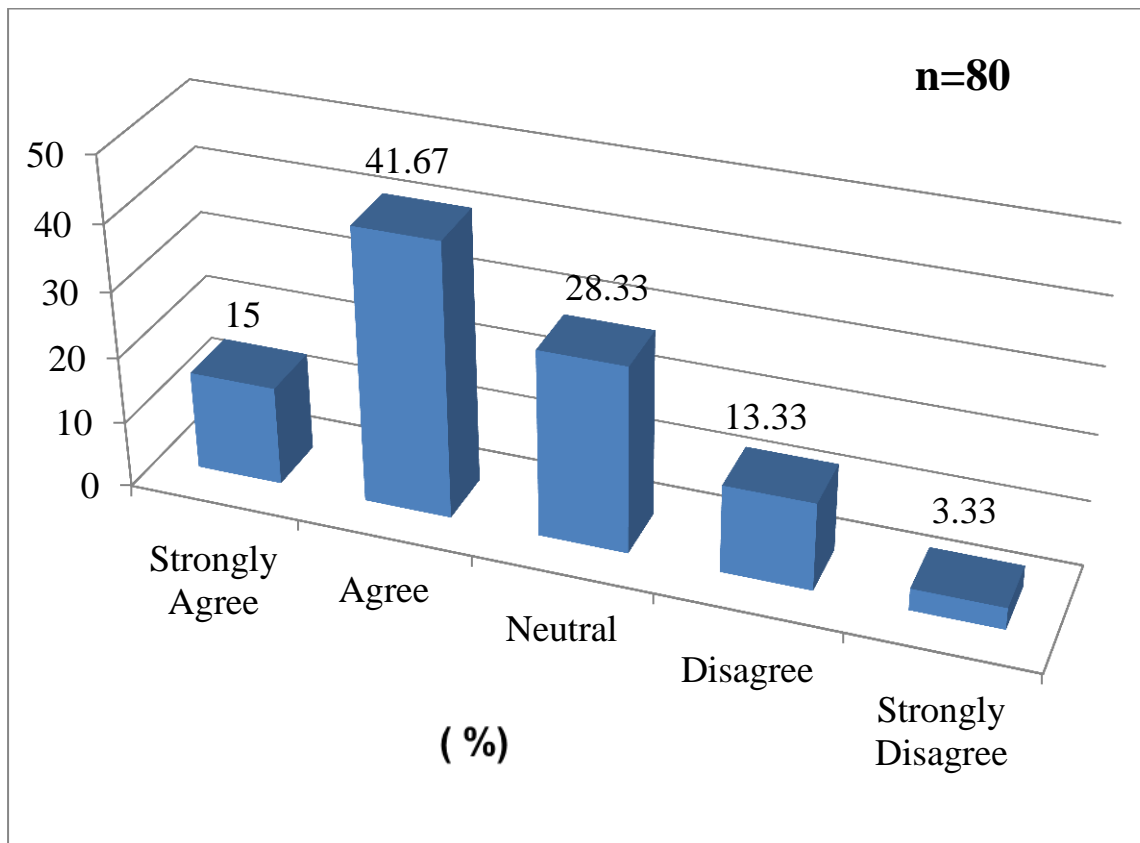


Fig 5.4

#### Interpretation

- ✓ The kind of marketing and operational support given by the franchisor attracts lots of investors as they find lots of growth opportunities working with the franchisor.
- ✓ 41.67% respondents support the fact that franchise business provides the more growth opportunities than their own brand while 15% strongly believe in this fact.
- ✓ 28% respondents have neutral response and 13% respondents completely disagree with the same.

### 5.1.5 I have the same interest with my franchisor

A successful franchise business depends on the understanding between franchisor & franchisee. A franchisee has apprehensions and expectations from franchisor; they want profitability, cooperation, better communication and understanding from the franchisor. Therefore franchisee and franchisor must have same interest.

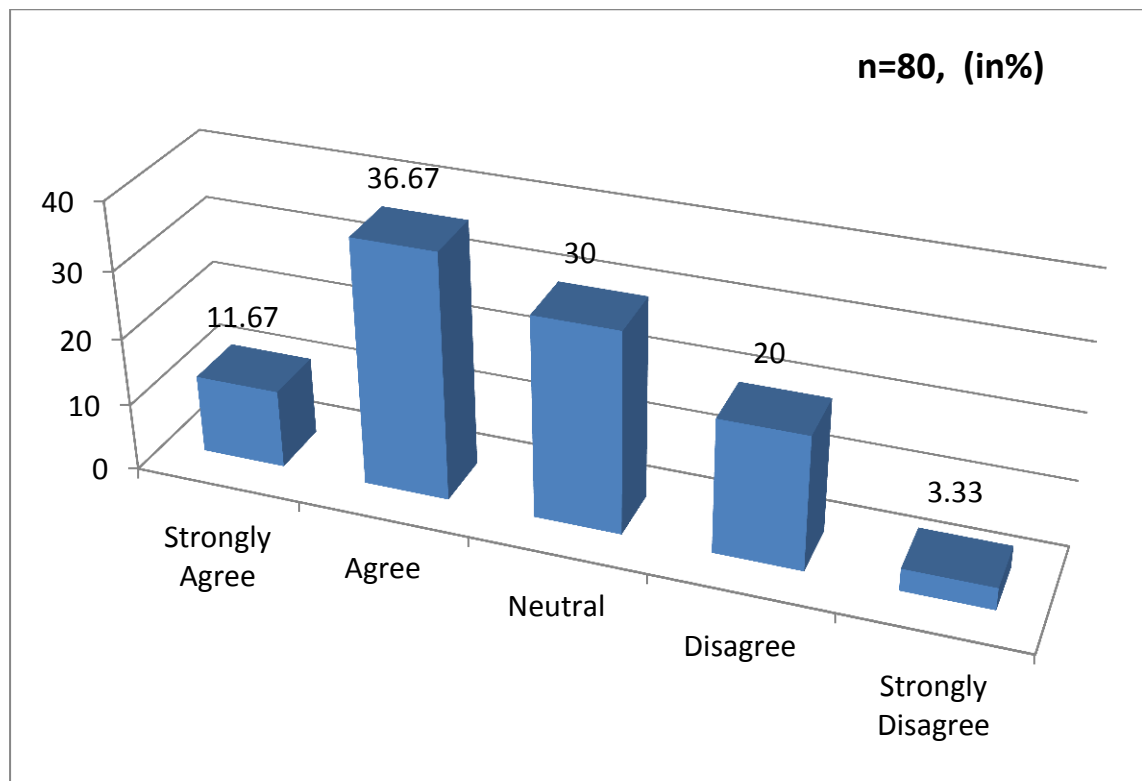


Fig 5.5

#### Interpretation

- ✓ Selection of a good brand and franchisor are the most important things to care in the franchise business.
- ✓ 36.67 % respondents support the fact while 30% were neutral about it.
- ✓ 20% of respondents disagree with the fact.

## 5.2 What kind of Franchise based business interests you?

When you first consider franchising as a business model, one of the choices that arise is which type of business, in which sector, suits you best. Our basic choice is to sell is goods or service.

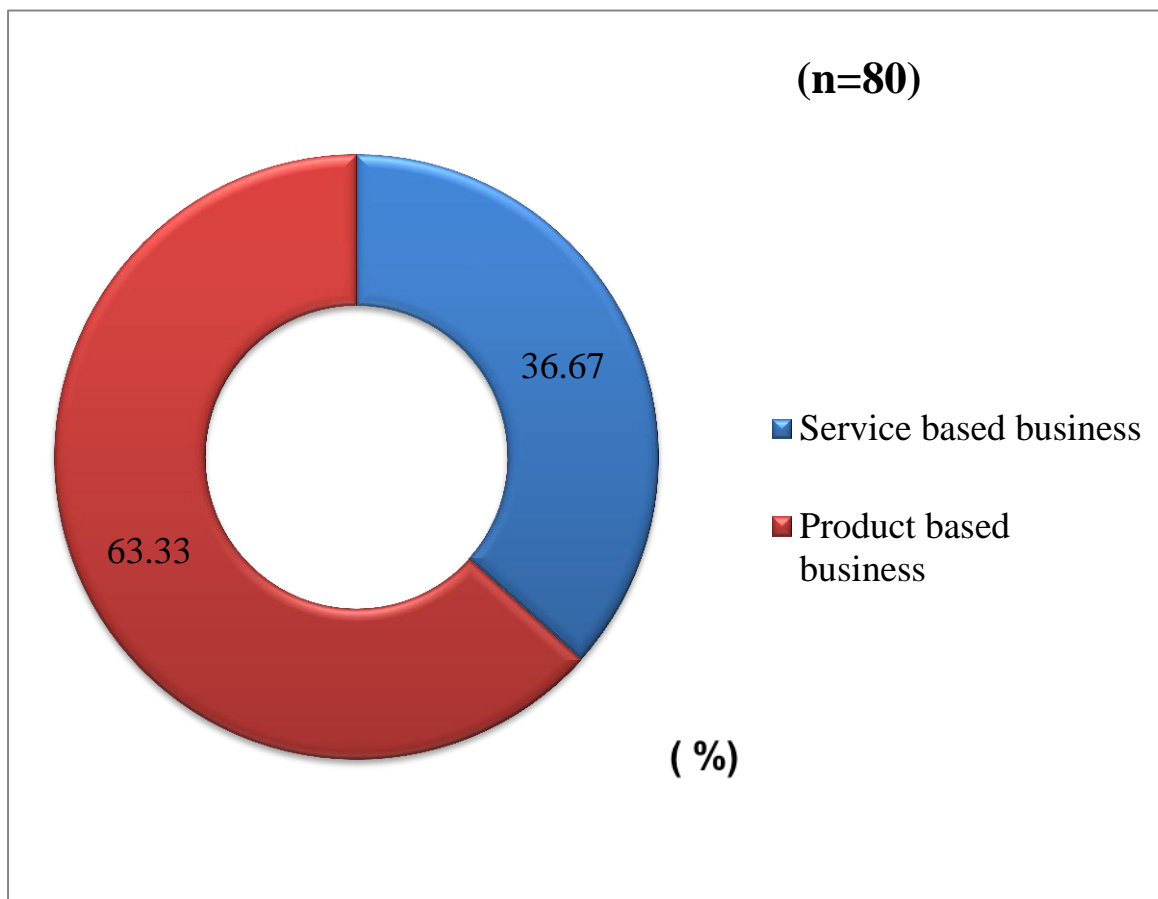


Fig 5.6

### Interpretation

- ✓ 63.33% of respondents want to opt for product based franchise business like Apparels, Electronic goods etc.
- ✓ 37.67 % of respondents wants to opt service based franchise business like Education institutes, professional services etc.

### 5.3 Category of Franchise

Franchising sectors like Education, Retail, Food and Professional Services, together constitute 89% of the franchising business in India. Education being the highest famous franchise based business in India. Thus, I asked the respondents to choose their sector to know, according to them, which is the most promising sector in franchise business.

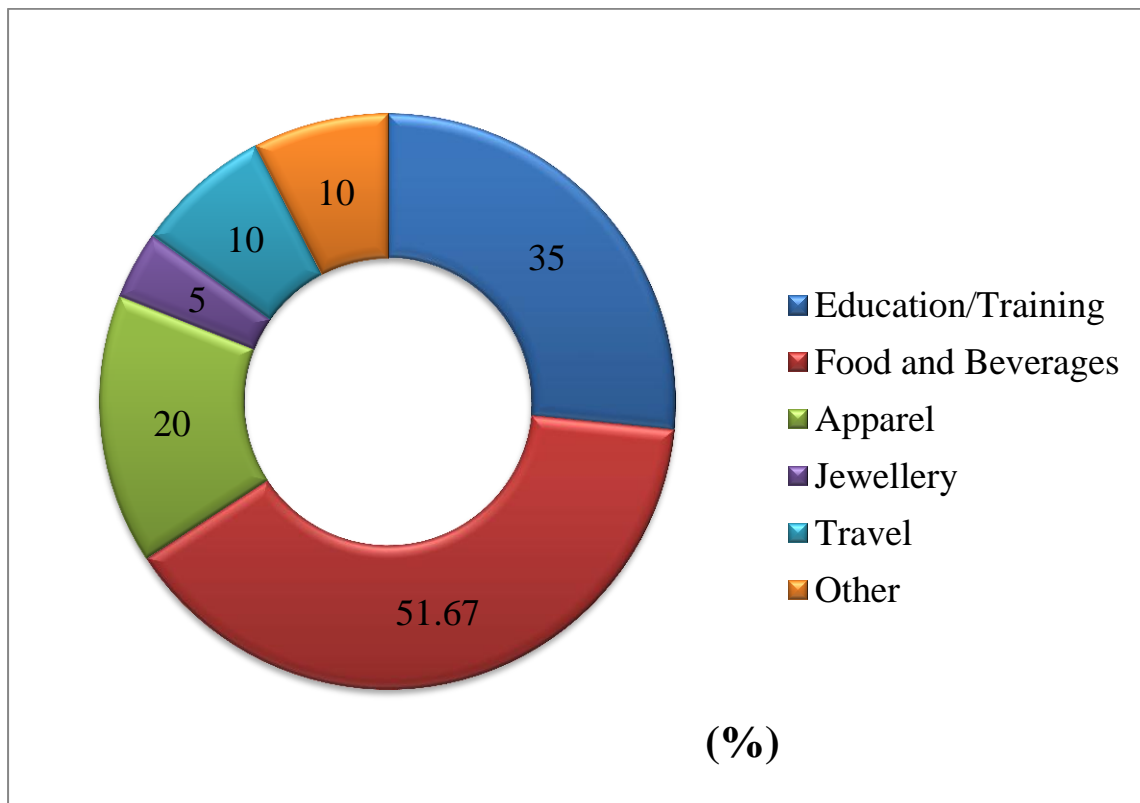


Fig 5.7

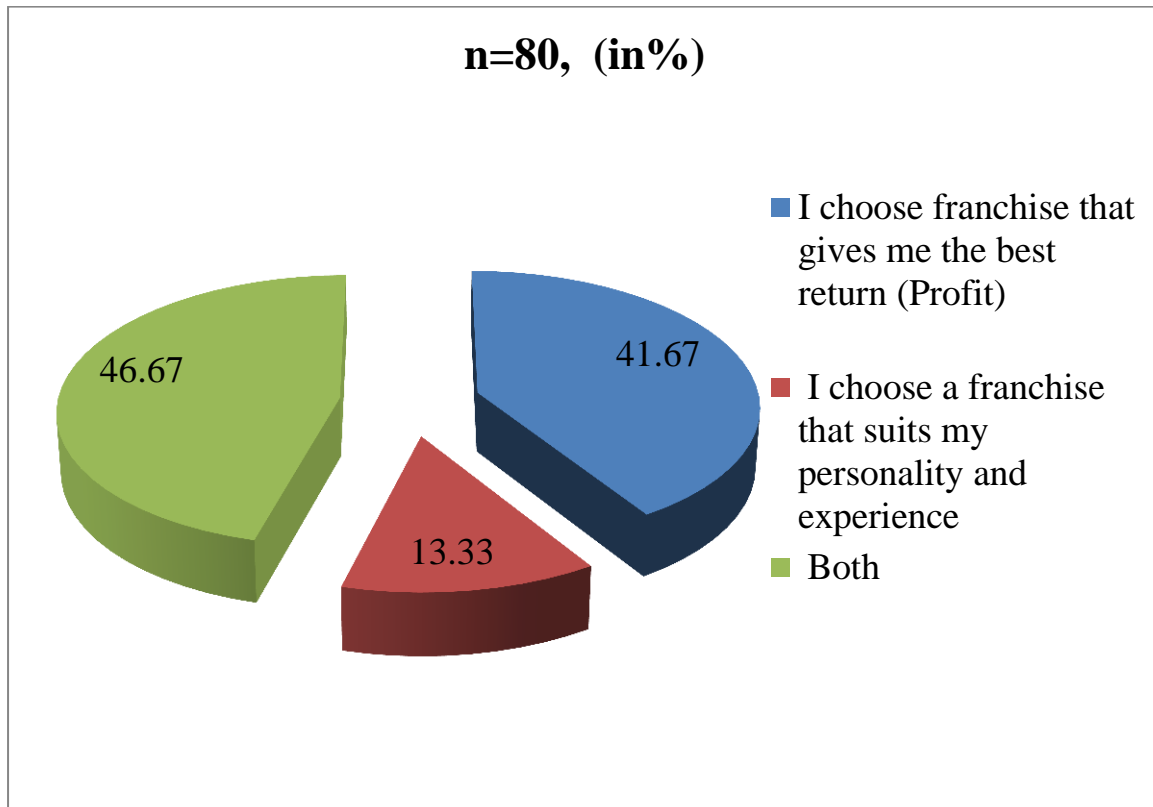
#### Interpretation

- ✓ 51.67% of respondent interviewed find food and beverages sector the most promising one and they would love to invest in this sector.
- ✓ Education/Training sector acquire the second place with 35% among the interviewed respondent.
- ✓ 20% respondents want to invest in Apparel sector.
- ✓ 10% respondent wants to invest in other sectors like Electronics business, Auto mobiles business, IT sector, Music etc.



## 5.4 Choice of Franchise

Why would you want to invest particularly in the sector (chosen above by the respondent)? It is the return on the money in that sector attracts you or it is your passion towards that particular sector drives your decision or both.



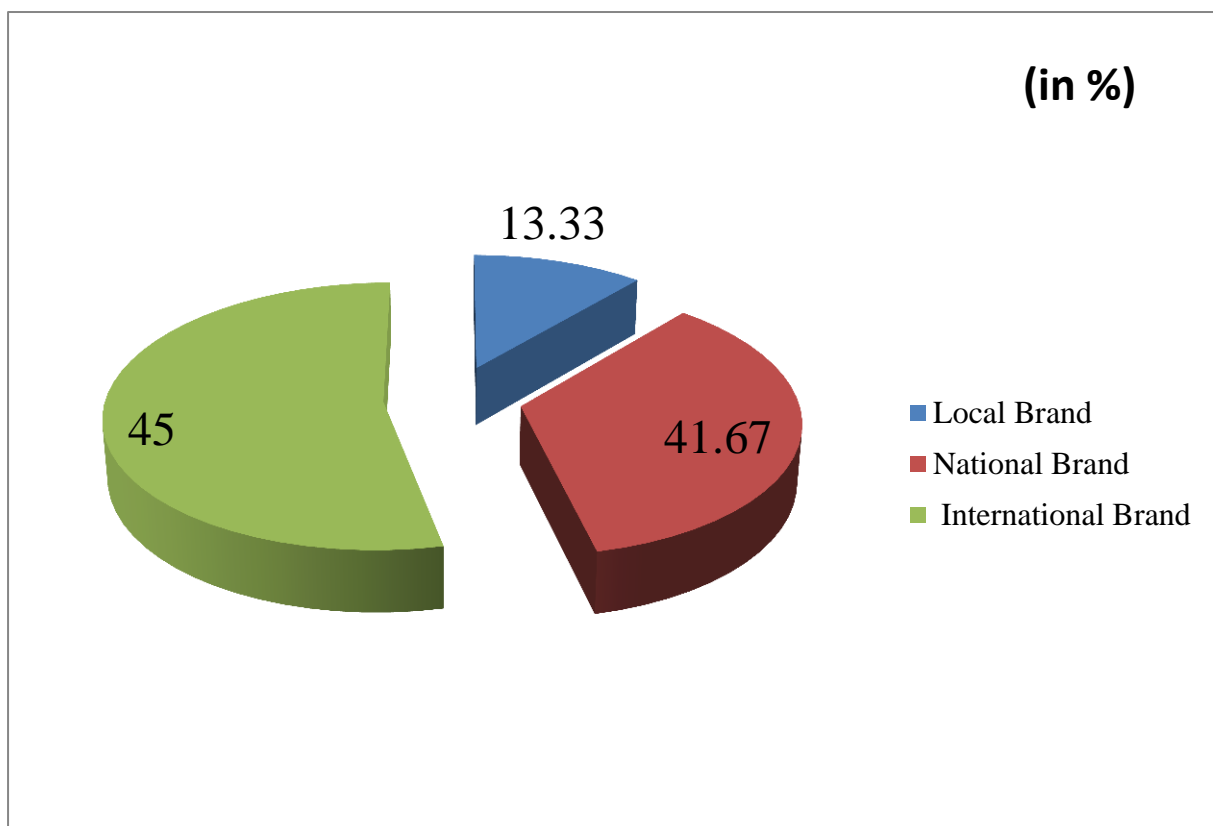
**Fig 5.8**

### Interpretation

- ✓ 41.67% of respondents interviewed went for profit oriented business.
- ✓ 46.67% of respondents want to invest for their passion but money is also very important to them.
- ✓ Only 13.33% of respondents choose passion over money.

## 5.5 Choose your Brand

While choosing a brand, it is important to first define your target demographic, the approach to do business with local brand is much different from national or international brand. Local brands may appeal to that franchisee who favours small, local producers over large national or global producers and vice versa.

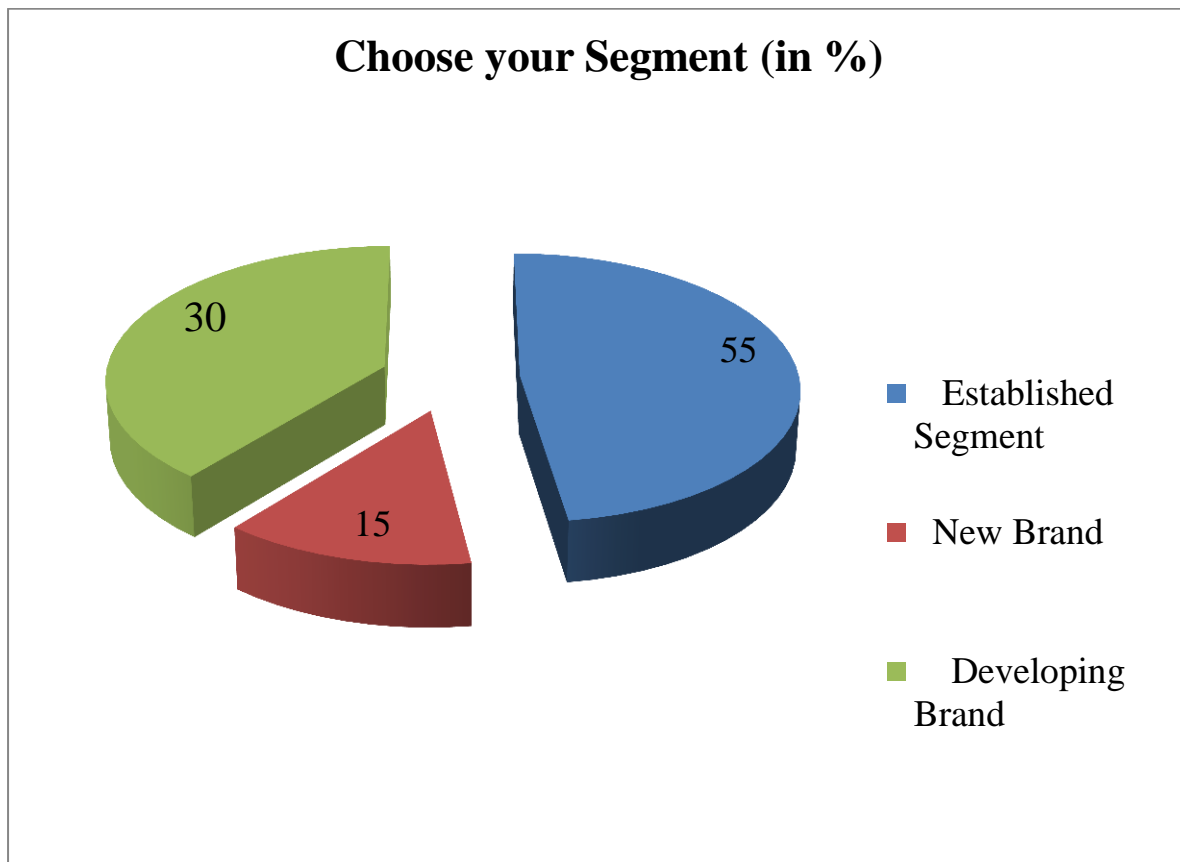


**Fig 5.9**

### Interpretation

- ✓ 45% of respondents interviewed want to invest in international brand as a kind of brand recognition and infrastructure provided by international level brand is so huge in comparison to local or national brand.
- ✓ 41.67% of respondents want to invest in national brand followed by 13.33% respondents who want to invest in local franchise.

## 5.6 Choose your Segment



**Fig 5.10**

### **Interpretation**

- ✓ 55% of respondents interviewed favour their investment in the established brand in the market.
- ✓ While 30% of respondents wants to grow with brand itself.
- ✓ 15% of respondents want to invest in the new brand.

## 5.7 Franchise as a source of income

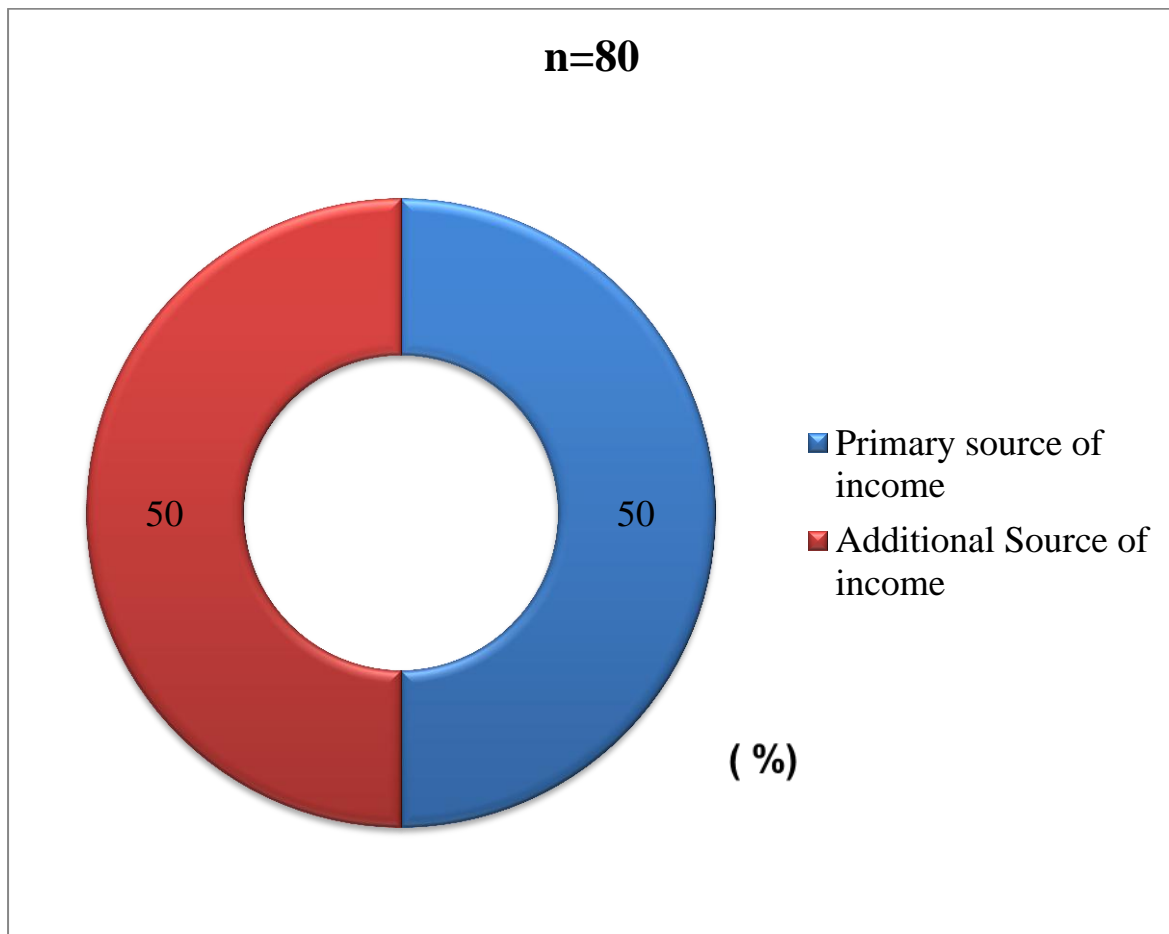


Fig 5.11

### Interpretation

- ✓ 50% respondents consider franchise as their primary source of income while other 50% consider it as their additional source of income.

## 5.8 How would you arrange funds for your Franchise Business?

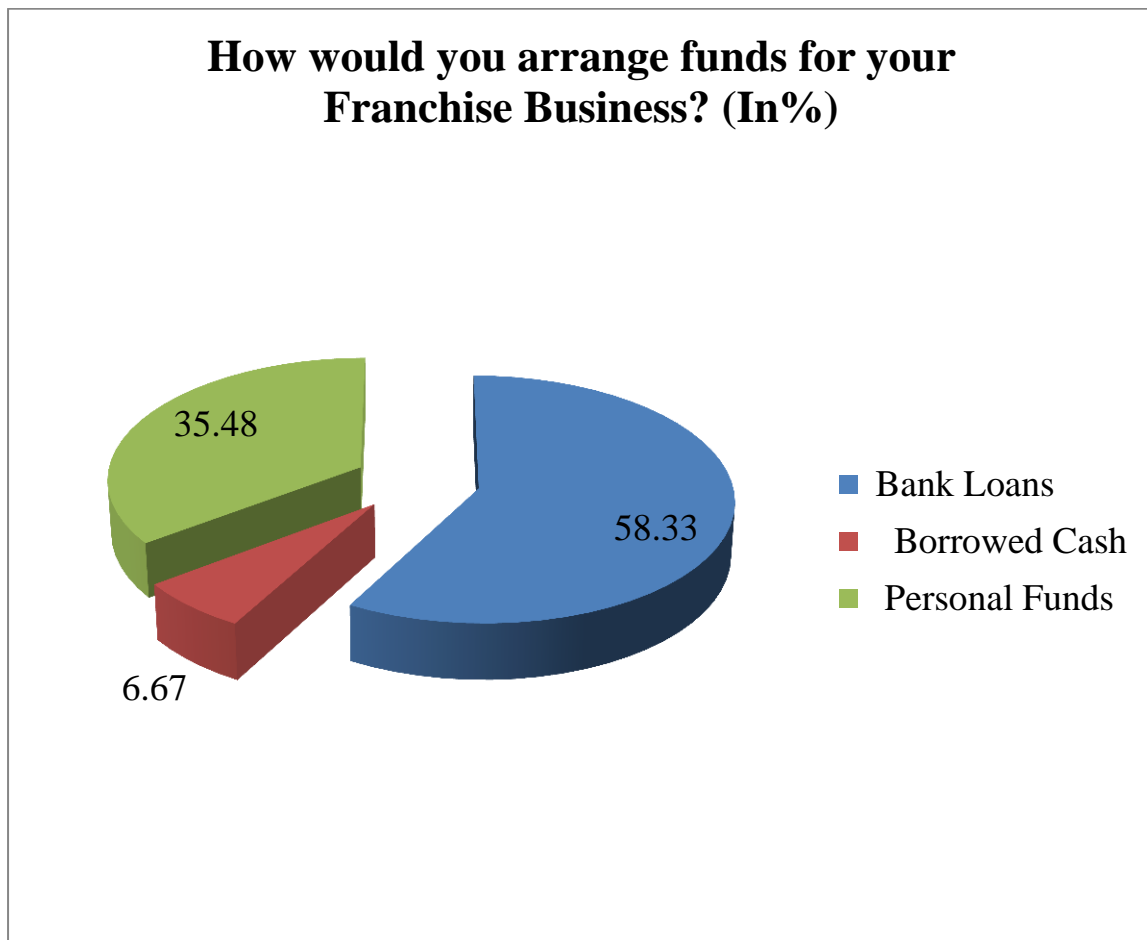


Fig 5.12

### Interpretation

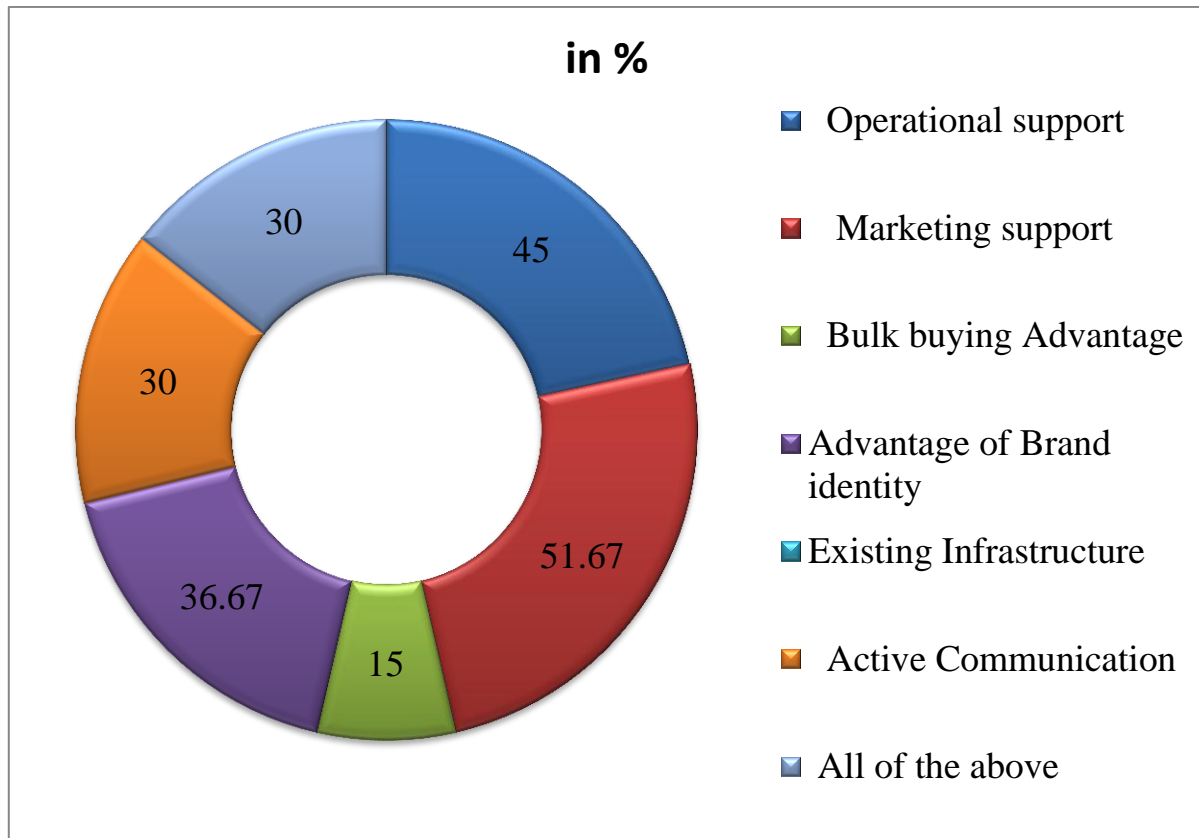
- ✓ 58% of respondents interviewed prefer bank loans their source of initial investment in their franchise business
- ✓ While 35.48% of respondents want to invest their savings in the franchise business.

## 5.9 What does Franchisee expect from their Franchisor?

There are certain practices which a franchisor can do to enhance and develop the franchisee/franchisor relationship.

- ✓ **Operational support:** Franchisor has dedicated team to providing on going assistance to franchisees. A new franchisee will receive all kind of operational support when they're building and running the franchisor's brand. The support system includes online access to corporate staff and national network of other franchisee owners. This support is extended through meetings, refresher trainings, annual convention and trade shows etc.
- ✓ **Advantage of Brand Identity:** Success of each unit in a franchise system, as well as the overall competitive strength of the franchise, is due to the presence of strong brand identification covering both the products offered and the services. And assuming that a significant brand recognition factor can be established and maintained in the minds of consumers, benefits will flow for the Franchisees.
- ✓ **Marketing Support:** Marketing support to a franchisee is very important and the biggest motivation to join a franchise network. More the marketing options a franchisor offer, the more effective a franchisee will be in maximizing its business. Most franchisors have the unique ability to launch large-scale marketing campaigns that are beyond the reach of individual businesses within the franchise. In addition to the geographic scope of these campaigns (many are nationwide), the quality of franchisor ads is usually top-shelf - a big plus when competing with smaller, independent businesses whose ads look substandard in comparison.
- ✓ **Bulk buying Advantage:** A franchisee can take advantage of the bulk buying capacity of the entire system to negotiate on the prices for everything they need at significantly lower levels than they could achieve as an independent operator. This applies not only to initial infrastructure and equipment purchases, but also to the supplies, inventory, and everything else a franchisee need on an on-going basis.
- ✓ **Active 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 improving the franchisor – franchisee relationship. This communication could be in the form of mails, letters, newsletters, conference calls, video conferencing etc.

When respondents asked to tell what they expect from their franchisor in terms of support, they respond as follows:



**Fig 5.13**

### **Interpretation**

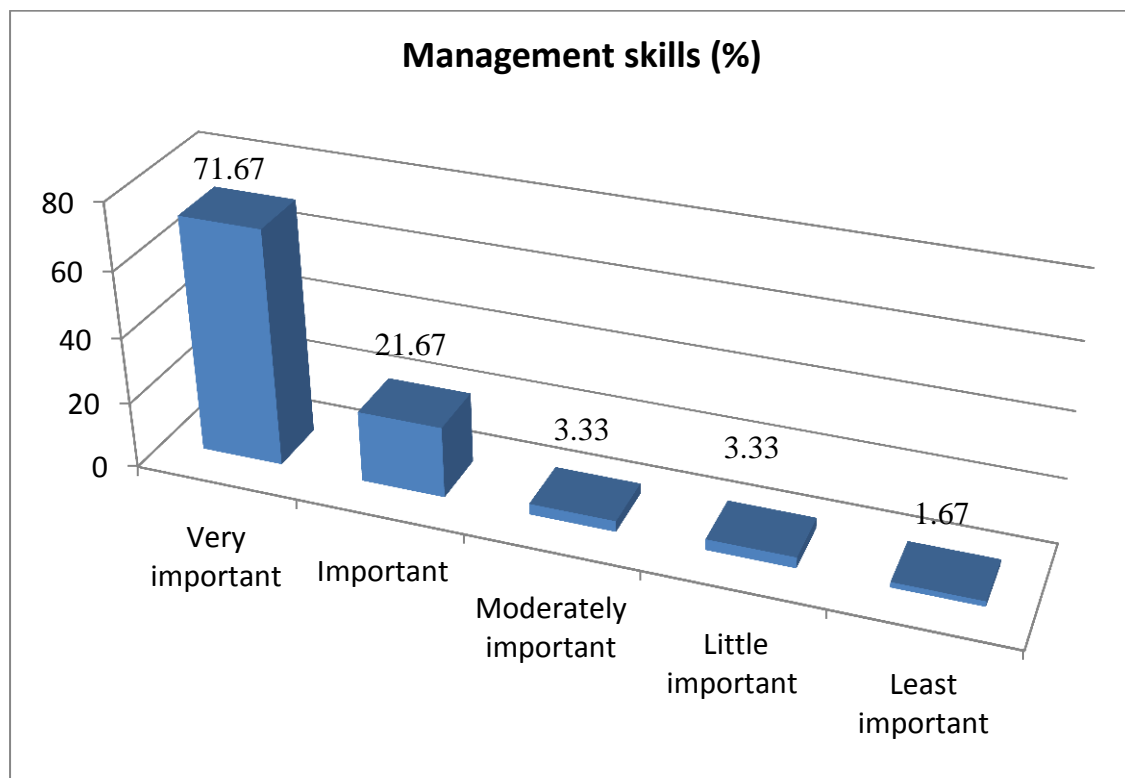
- ✓ 51.67% respondents interviewed demands the market support from their franchisor as marketing is most important thing to take care for any kind of business.
- ✓ 45% respondents want their franchisor to provide them the operational support in terms of infrastructure and training.
- ✓ 36.67% respondents want to use the brand status of their franchisor brand.
- ✓ 30% respondents want their franchisor to be actively connected to them and act as their guiding light.
- ✓ 30% respondents also want their franchisor to provide them the access to use the existing infrastructure.

## 5.10 SKILLS

These are the attributes that can be regarded as the scaffoldings required by the franchisor for running the franchise. How motivated the individual is and financial support of the individual that he received from family and friends.

### ✓ Management Skills

Franchisors tend to look for franchisees that have developed certain business and management skills. These skills assist in dealing with people, leading a team, communicating with others, managing the operations etc.



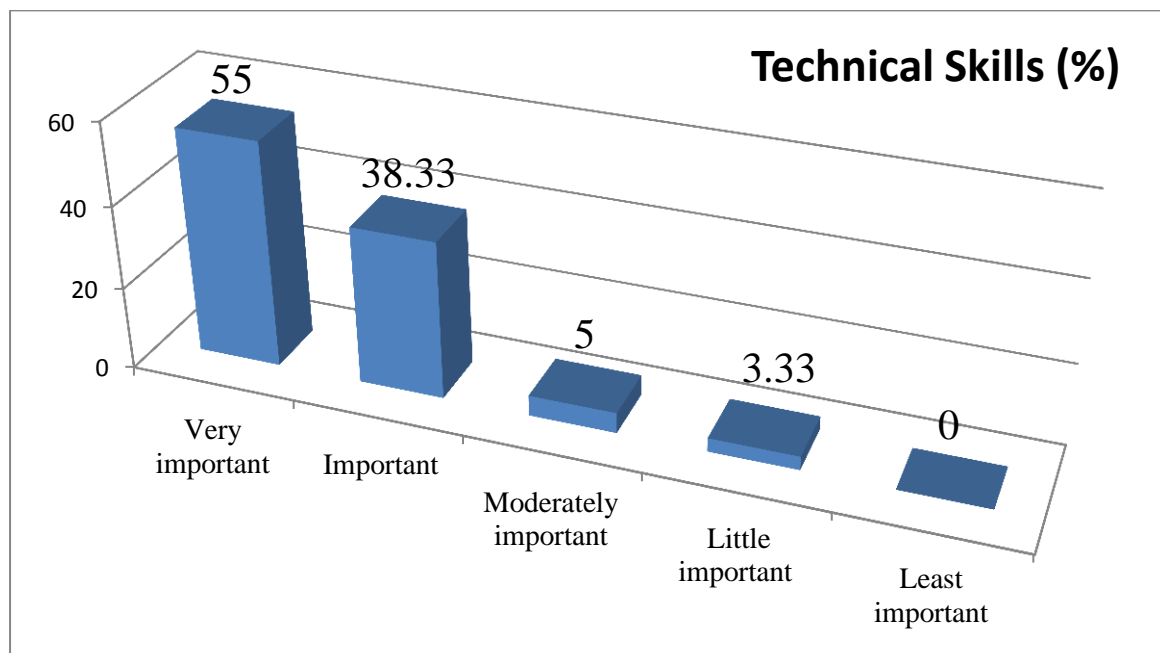
**Fig 5.14**

- ✓ 71.67 % of respondents interviewed considered management skills as very important factor to run the franchising business smoothly.



✓ **Technical Skills**

Technical skills indicate the education of an individual in specialized field like Engineering, Law, Accountancy, Finance, IT etc.

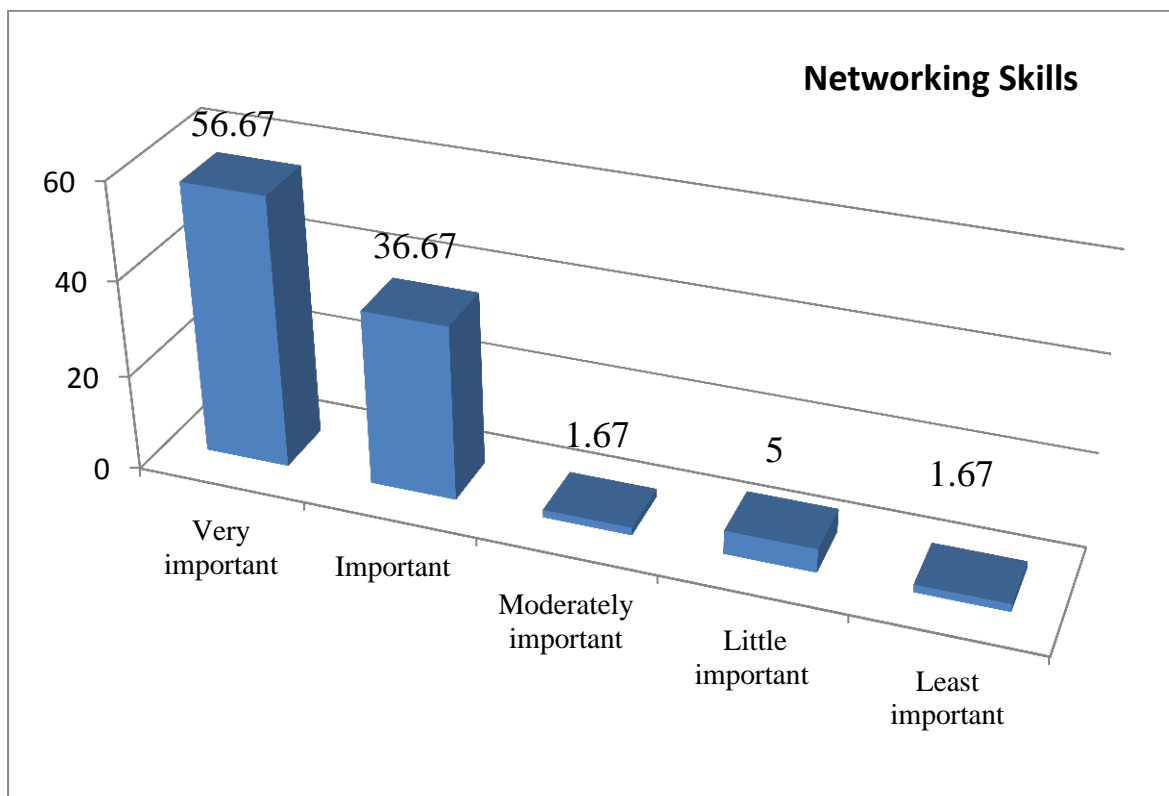


**Fig 5.15**

- ✓ 55% respondents consider the technical skills as very important for the business success while 38.33% respondents considered them as an important factor.

## Networking Skills

The ability to network and to manage customer and business relationships effectively forms an important role of a franchisee. Loyalty and trust are vital features when it comes to managing staff and customers. These need to be maintained in order for the franchise business to succeed.



**Fig 5.16**

- ✓ 56.67% respondents considered the networking skills of a businessman as very important factor for the business success while 36.67% considered it as an important factor.

## 5.11 Expertise

This attribute includes the financial status of the individual, his analytical skills, his risk taking ability and his profit expectation from the business.

### ✓ Financial Fitness

Having adequate capital is necessary to minimize the financial risk associated with starting a new business. The franchisee might be required to source any required financing prior to and after the final approval of the contract.

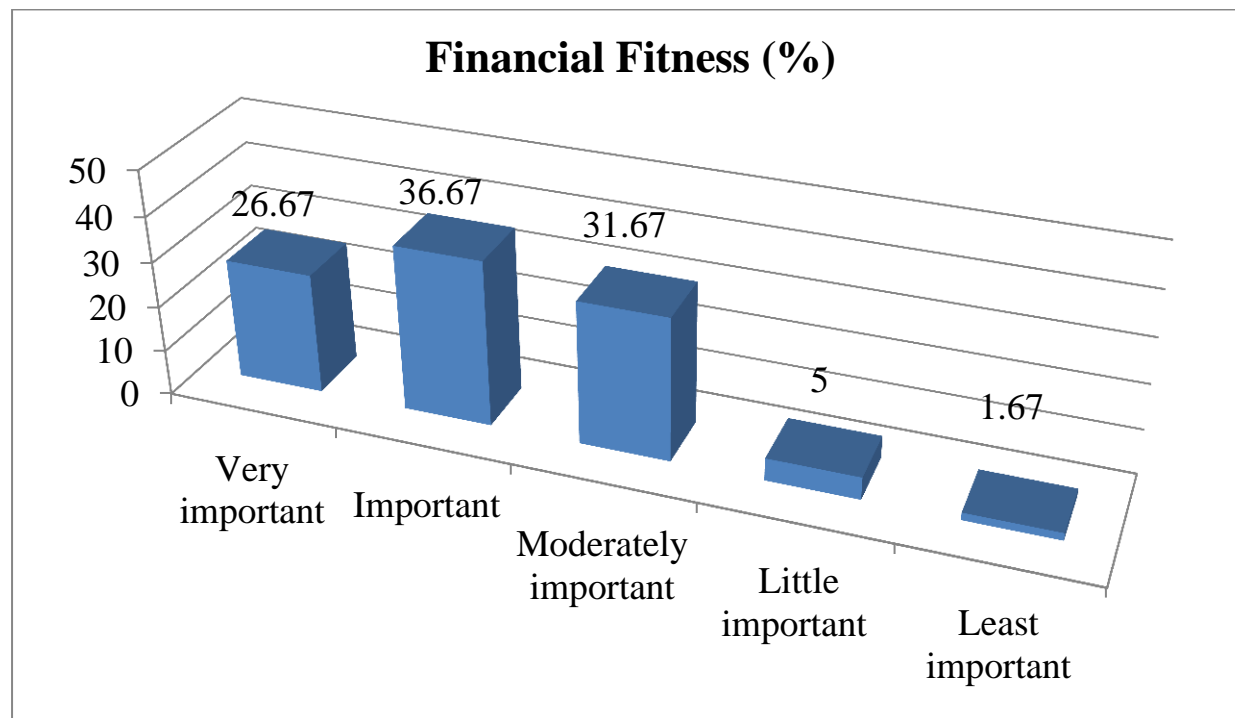
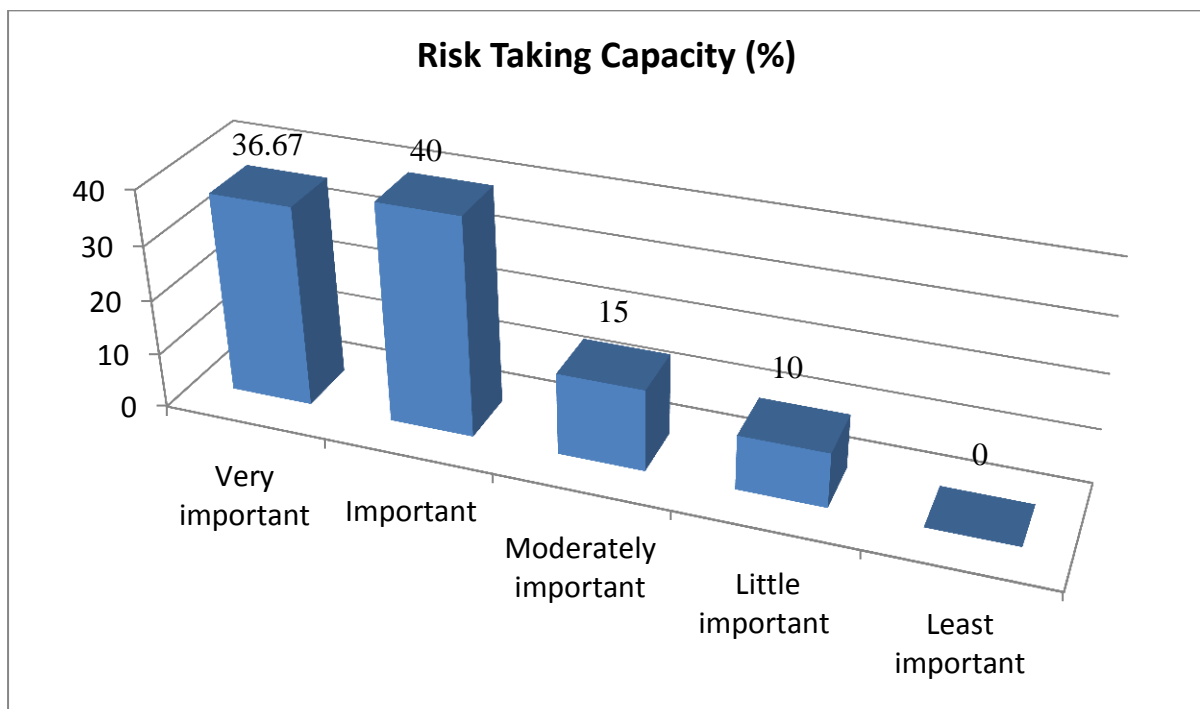


Fig 5.17

- ✓ 26.67% respondents consider the financial fitness of the person as very important factor, while 36.67% & 31.67% respondents consider it as an important and moderately important factor for the business success.

✓ **Risk Taking Capacity**

A person may be a high risk taker but the difference among the risk takers is that whether the high risk yielded a return, it may be a high return or a low return. One needs to have the ability as well as the skill to take risk.

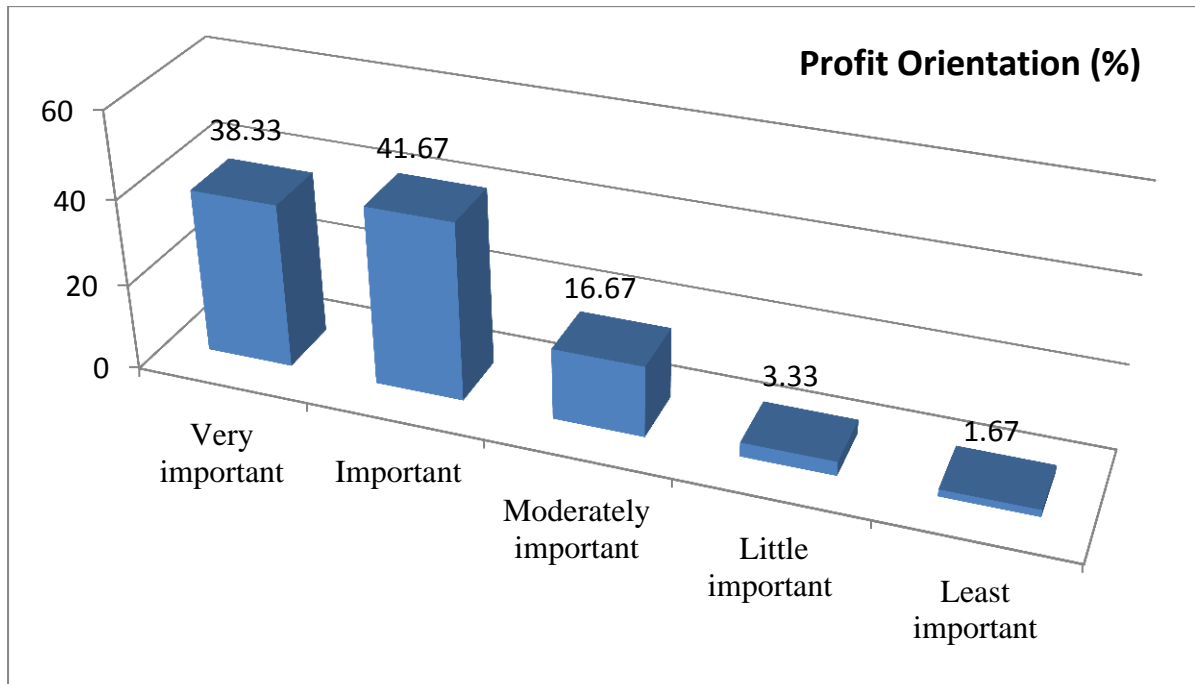


**Fig 5.18**

- ✓ 36.67% respondents consider the risk taking ability as very important expertise require to run the business smoothly while 40% respondents consider it as an important factor.
- ✓ 15 % respondents take it as moderately important factor while other 10% take it as of little importance.

✓ **Profit Orientation**

What is the expectation of the franchisee from the business? It is the return on the money invested by the franchisee in the business.

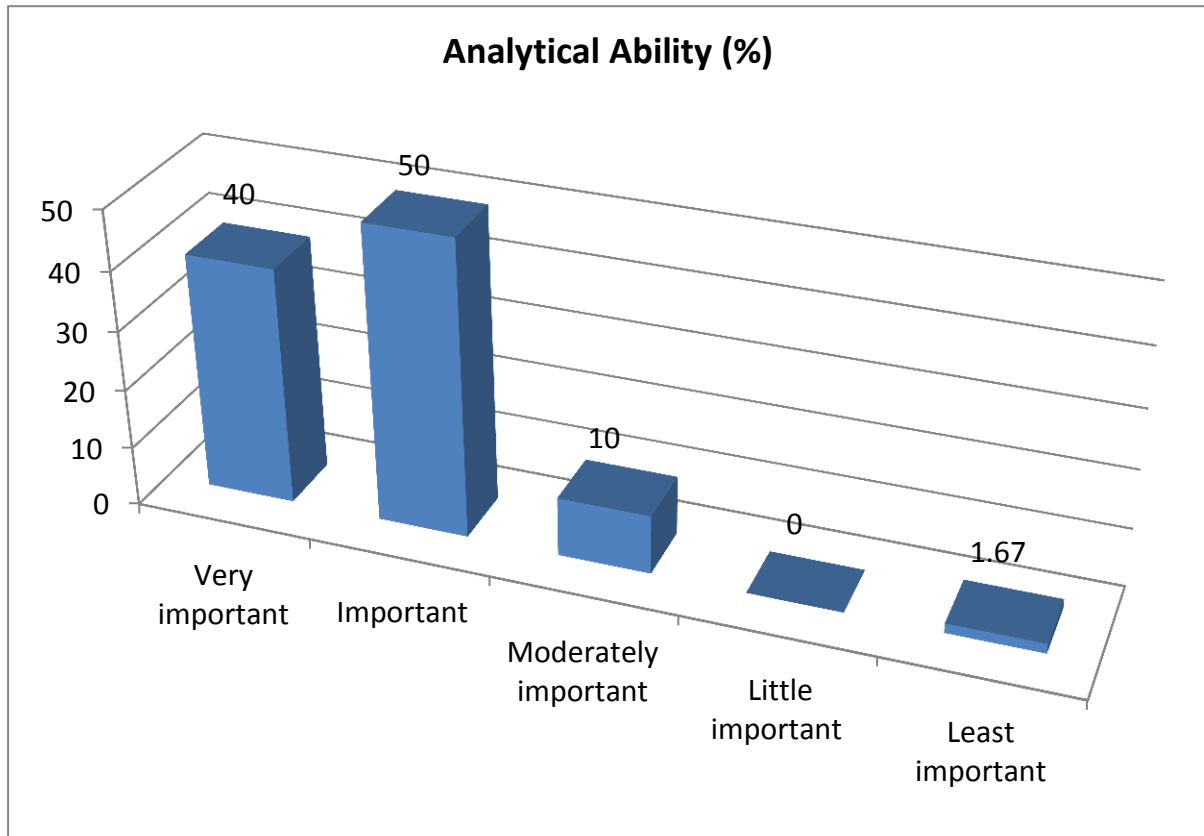


**Fig 5.19**

✓ 38.33 respondents consider the profit oriented nature of franchisee is very important for the business success while 41.67% consider it as an important factor.

✓ **Analytical Ability**

It is the measure of the concentration and specificity of the franchisee. If a person is specific to every minute detail then there are less chances of making errors or mistakes.



**fig 5.20**

✓ 40% respondents interviewed consider analytical ability of a person as very important expertise require to run the business smoothly while 50% consider it as an important factor.

## 6. CONCLUSIONS

- ✓ Franchising is considered as the easiest way to start a business as per our respondents as brand name is easily recognized. System is well placed, infrastructure already exists and it has lower rate of risk also. Moreover franchise business has more growth opportunities than starting a new brand according to our respondents. (infer from sec 5.1)
- ✓ Existence of established brand, well set up infrastructure, convenience nature and lower risk of franchising business, these components act as motivation behind an entrepreneur's choice of franchising format.(infer from sec 5.1)
- ✓ A franchisee looks for the growth opportunity in the business. He is being attracted by the return that is being offered by joining the franchise.(infer from sec 5.1)
- ✓ Service based franchise business is more popular among our respondents than the product based franchise business. (infer from sec 5.2)
- ✓ Food and beverages is the most famous franchise business among our respondent followed by education/training and apparels franchise business. (infer from 5.3)
- ✓ Franchisee choice of franchisee business based on the rate of return over the investment and their passion for brand both, but if situation arises they will choose profit over passion for particular brand. (infer from sec 5.4)
- ✓ International brand is the most famous option for our respondents due to the brand recognition and presence of supportive infrastructure on a bigger level followed by the national brand and local brand respectively.(infer from sec 5.5)
- ✓ Similarly established brand segment is more popular among the respondents followed by developing brand and new brand.(infer from sec 5.6)

- ✓ Marketing support to a franchisee is very important and the biggest motivation to join a franchise network. More the marketing options a franchisor offer, the more effective a franchisee will be in maximizing its business. (infer from sec 5.9)
- ✓ After marketing support, what franchisee most expect from the franchisor is the operational support, which includes online access to corporate staff and national network of other franchisee owners, this support is extended through meetings, fresher trainings, annual convention and trade shows etc. (infer from sec 5.9)
- ✓ Success of each unit in a franchise system is due to the presence of strong brand identification covering both the products offered and the services. Respondents give huge weightage to brand identity before deciding to go for a brand or not. (infer from sec 5.9)
- ✓ Distribution, Buildings, machinery, people, systems, customers, suppliers, employees are the benefits which franchisee expects from his franchisor which would give him a chance to run the business smoothly with an existing set up only.(infer from sec 5.9)
- ✓ Talking about the skills required for the franchisee to achieve success in the franchise business includes the management skills, as these skills assist in dealing with people, leading a team, communicating with others, managing the operations etc. (infer from sec 5.10)
- ✓ Similarly Technical skills like IT skills, Accountancy, Finance are also very important according to our respondents. (infer from sec 5.10)
- ✓ They also consider the networking skills of the person to be as a deciding factor for one's success as ability to network and to manage customer and business relationships effectively forms an important role of a franchisee. (infer from sec 5.10)
- ✓ Talking about the expertise required to run the franchise venture in a smooth way includes the financial fitness of the person investing in a business, to minimize the financial risk. (infer from sec 5.11)



- ✓ Franchisee needs to have the ability as well as the skill to take risk. (infer from sec 5.11)
- ✓ Franchisee must be profit oriented as ultimate aim of doing business is to earn profit. (infer from sec 5.11)
- ✓ Franchisee must have analytical abilities to take right decisions at a right time as this will reduce the chances of errors or mistakes. (infer from sec 5.11)

## **7. Key Recommendations**

There are certain practices which a franchisor can do to enhance and develop the franchisee/franchisor relationship:

- ✓ **Sharing the Vision:** Franchisor should share the personal vision of opportunity and success with the franchisee. A franchisee being a family member of the franchise system, deserve to be a part of the vision, which will become the focal point of the franchisee/franchisor relationship as they build to mutually develop in a harmonious and successful franchise experience.
  
- ✓ **Active communication:** Lack of effective, honest and open communication leads to chaos and differences between the franchisor & franchisee. Thus to avoid such circumstances, franchisor can practise the following:
  - Manage a line of communication through various means like conference call, emails, personal visits etc.
  - Share success stories and sales data of other franchisees to motivate them.
  - Maintain a healthy relationship with the franchisee through regular visits to the franchisee unit.
  
- ✓ **Training Program:** Almost all franchisees require initial training to start the business. The franchisor should provide training and improvement programs which will enhance the abilities and capacities of the franchisee.
  
- ✓ **Developing & sharing an aggressive growth plan:** Both the franchisee and the franchisor desire the company to grow, franchisee is more concerned about the growth opportunity and the future prospects in the business. Therefore a franchisor should communicate clearly what are the growth opportunities available for a franchisee.
  
- ✓ **Acknowledging the performance & preferential treatment:** Franchisor should acknowledge the performance of his franchisees, especially those who are performing extraordinarily well. That would be a great motivation for the franchisee.

- ✓ **Skills & Expertise:** Franchisors must look for franchisees that have developed certain business and management skills, technological skills and networking skills and expertise like analytical abilities, financial fitness, risk taking capabilities, profit oriented. These skills and expertise assist in dealing with people, leading a team, communicating with others, managing the operations etc.

### **Limitations of the study**

- ✓ The study is conducted considering the prevailing conditions which are subject to change in the future.
- ✓ The Research is confined to the geographical boundary of Delhi.
- ✓ Sampling has its own limitations; it may or may represent the intended Population.

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## Annexure 1: Questionnaire

1. Your Name
  
2. Gender
  - a) Male
  - b) Female
  
3. Age
  - a) 20-25
  - b) 25-30
  - c) Above 30
  
4. Location
  
5. Education Background
  - a) Matriculation
  - b) +2
  - c) Graduate
  - d) Post Graduate or higher
  
6. Occupation
  - a) Student
  - b) Self Employed
  - c) Working at MNC
  - d) Govt. Service
  - e) Trader
  - f) Other
  
7. Why would you go for a Franchise Business model?
  - a) Franchising is the easiest way to start a business
    - i. Strongly Agree
    - ii. Agree

- iii. Neutral
  - iv. Disagree
  - v. Strongly Disagree
- b) I choose Franchising because there is lower risk of failure
- i. Strongly Agree
  - ii. Agree
  - iii. Neutral
  - iv. Disagree
  - v. Strongly Disagree
- c) I want an established brand than starting on my own
- i. Strongly Agree
  - ii. Agree
  - iii. Neutral
  - iv. Disagree
  - v. Strongly Disagree
- d) There is higher growth opportunity in franchising than own brand
- i. Strongly Agree
  - ii. Agree
  - iii. Neutral
  - iv. Disagree
  - v. Strongly Disagree
- e) I have the same interest with my franchisor
- i. Strongly Agree
  - ii. Agree
  - iii. Neutral
  - iv. Disagree
  - v. Strongly Disagree

8. What kind of Franchise based business interests you?

- a) Service based Business
- b) Product based Business

9. Choose your Category of Franchise

- a) Education/Training

- b) Food and Beverages
- c) Apparel
- d) Jewellery
- e) Travel
- f) Other

10. Your Franchise choice based on

- a) I choose franchise that gives me the best return (Profit)
- b) I choose a franchise that suits my personality and experience
- c) Both

11. Choose your Brand

- a) Local Brand
- b) National Brand
- c) International Brand

12. Choose your Segment

- a) Established Segment
- b) New Brand
- c) Developing Brand

13. Franchise is your

- a) Primary source of income
- b) Additional Source of income

14. How would you arrange funds for your Franchise Business?

- a) Bank Loans
- b) Borrowed Cash
- c) Personal Funds

15. What do you expect from Franchisor?

- a) Operational support
- b) Marketing support
- c) Bulk buying Advantage
- d) Advantage of Brand identity
- e) Existing Infrastructure
- f) Active Communication
- g) All of the above

h) Any other

16. How much the following skills are important for a Franchise to run their venture smoothly?

a) Management skills

- i. Very important
- ii. Important
- iii. Moderately important
- iv. Little important
- v. Least important

b) Technical skills

- i. Very important
- ii. Important
- iii. Moderately important
- iv. Little important
- v. Least important

c) Networking skills

- i. Very important
- ii. Important
- iii. Moderately important
- iv. Little important
- v. Least important

d) Any other

17. How much the following expertise is important for a Franchise to run their venture smoothly?

a) Financial Fitness

- i. Very important
- ii. Important
- iii. Moderately important
- iv. Little important



- v. Least important
- b) Risk taking Capacity
  - i. Very important
  - ii. Important
  - iii. Moderately important
  - iv. Little important
  - v. Least important
- c) Profit orientation
  - i. Very important
  - ii. Important
  - iii. Moderately important
  - iv. Little important
  - v. Least important
- d) Analytical Ability
  - i. Very important
  - ii. Important
  - iii. Moderately important
  - iv. Little important
  - v. Least important
- e) Any other