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A Comparison of two ways to start a business: Buying a Franchise and Launching a Startup

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Abstract: As history says, an entrepreneurship is encouraged by the struggling economy that results in a significant increase in new startup business. A hardworking and motivational professional having limited business knowledge and scarcity of resources will need a roadmap to convert his willingness and efforts in the actual era of business. Some people want an independent business like purchasing a business in a box which allows them to freely run the operations of enterprise in the way they want without any control over their tasks they perform either in part or as a whole. While others need a proper guidance to run a business successfully. To a layman, both look very much similar to each other. But in reality these concepts differs in many aspects discussed over here. Thus this Paper attempts to make a sensible decision whether to invest in a Franchise or to think about starting a brand new independent Business. The paper will consider various pros and cons of franchising and starting a new business, the types of risks that are to be faced by the entrepreneur and potential rewards that can be achieved. It will also consider the availability of monetary resources while comparing and contrasting these concepts.

Keywords: Entrepreneurship, Franchise, pros and cons

INTRODUCTION

Franchising is a continuous relationship in which one party (Franchisor) provides a license privilege to another party (Franchisee) to do the business and assistant is offered in organizing, training, merchandising, marketing and managing in return for a consideration in terms of money by the Franchisor. It is a kind of business in which the Owner (Franchiser) of a product, service or method receives distribution via its affiliated dealers (Franchisees).

In Franchising, an initial fee and ongoing royalties has to be paid by the Franchisee and in return he gains the use of Trademark, regular support from the Franchisor and has been given the right to use Franchisor's system of doing business to sell the products and services.

Launching a Startup refers to the initial stage in the life cycle of an organization where the idea stage is moved by the entrepreneur to securing financing, laying down the basic structure of business and initiating operations and training. In layman language it can be said that a Startup refers to a young

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organization that is just ready to develop. Generally, Founders or an individual finance and operates these startups at usually small level. The resulted company offers a variety of product and services that are not currently offered anywhere in the market.

OBJECTIVES OF THE PAPER

1. To make a sensible decision whether to invest in a Franchise or to think about starting a brand new independent Business.
2. To describe various pros and cons of franchising and starting a new business.
3. To study the risk factors and rewards regarding these issues.

DATA COLLECTION The secondary data has been used in this paper and information has been taken from the internet via journals, newspapers and research papers.

RISK FACTOR: A BIG DECISION PROBLEM IN FRANCHISING AND LAUNCHING A STARTUP

In consideration of whether to invest in a Franchise or to start an independent own business various factors like types of risks involved and potential rewards from that decision must be take care off as they vary in this decision.

Thus, before making a decision the risk factors like Initial Responsibilities, Ability of Creation, Monetary resources and level of experience should be taken in account that are explained in the below table.

S.No.	RISK FACTORS	LAUNCHING A STARTUP	FRANCHISE
1.	INITIAL RESPONSIBILTY	In opening own business, responsibility falls on shoulders of initial entrepreneur. Though he will get reward in the long run but starting up a new business requires a clear and organizes vision to have a respect for business within the market scenario.	In Franchising, Franchiser gets a well established company and he does not have to do any tasks for building a brand image and reputation.



2.	CREATIVE CONTROL	If an individual wants full control over the designing and creative aspects of the enterprise then startup will be a great choice to work independently together with the challenge of creating a unique atmosphere.	Franchiser gets the benefit of already established reputation and business chain all over the country as well as at the world level. But a Franchiser has to strictly follow the existing rules and regulations. He cannot alter anything in the décor and establishment of its business.
3.	MONETORY RESOURCES	Owner himself has to decide the budget for the startup costs. He has to incur various initial costs like purchasing a building, its designing and an aggressive marketing campaign to make popular the business.	To open a Franchisee, one has to just meet its initial financial requirements. A Franchisee has to meet only the minimum net worth requirements in proving that he has made investment in terms of money. After opening of Franchise, Royalties and national advertisement campaign fee are involved.
4.	EXPERIENCE LEVEL	If a person has specific experience and significant knowledge in the industry, it is much easier to be comfortable in creating and executing the Forecasts done instead of acting under other's choice.	If an individual has the strong understanding about market demographics provided by significant experience can mold for successful owners of the Franchise.

ADVANTAGES OF BUYING A FRANCHISE

- **Higher Chances to Succeed** – A franchise is an already established business model. Although experts disagree on the exact figures, statistics have shown in the past that franchises enjoy a higher rate of success when compared to standalone businesses.
- **Parent Company Support** – Parent companies (called the "franchisor") provide extensive support for franchisees. A lot of franchises are turnkey operations: that is, the parent company



provides the complete package to start the business (including equipment, supplies and training) and the franchisee executes the plan.

- **Large-Scale Marketing** – Many franchise brands have national presence and recognition. Franchisors require franchisees to contribute into a national "marketing budget" which the parent company uses to run system-wide advertisements and promotions.
- **Inventory** – Franchises typically enjoy collective buying power advantages that are immensely beneficial in terms of maximizing margins.

DISADVANTAGES OF BUYING A FRANCHISE

- **Authoritative Parent Company** – The franchisor may exert substantial authority over how you run your franchise, and in some cases may seem to micro-manages the franchisee.
- **Unforeseen Costs and Potential Lack of Support** – Typical costs, such as franchise fees, royalties, etc. add up to a high potential cost of buying and operating a franchise. Also, while most franchisors provide extensive ongoing support, in some systems the support from the parent company may be limited to just setting up the business. Lack of support and lack of ongoing training could lead to further problems in franchises with more complicated business models.
- **Complicated Termination Clause** – If the franchise is not successful, it is usually a complicated and expensive process to terminate the franchise contract.

ADVANTAGES OF A START-UP

- **Innovation** – A start-up is the leading channel to expose innovative ideas and make them a reality. Creativity is a crucial element.
- **Entrepreneurial** – A number of hard working professionals, by starting their own business from scratch, can explore unrestrained management and personal skills and talents. Self-guidance and motivation are the driving factors in the success of a start-up.
- **Independence and Growth** – Starting one's own business is a great way to break the monotony of a 9 to 5 job. It ensures professional freedom with limitless potential.

DISADVANTAGES OF A START-UP

- **Overwhelming and Strenuous** – It can be an extensive and tiresome process to find investors, create business and marketing plans, and above all transform an idea into a reality.
- **Risky** – Starting a business is typically more risky as there is no proven formula.



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- **Lack of Training and Support** – There is no management guidance and training available for running a successful business. Also, it can be hard to stay motivated and persistent during difficult times.

CONCLUSION

Thus, it can be said that there is no specific answer about which strategy is best. It completely depends on the business model and philosophy about what a person wants to accomplish. So, after evaluating the pros and cons of franchising versus starting a business, self-evaluation is needed.

If a person who likes to innovate, has a ton of passion, a high tolerance for risk and yearn for managerial autonomy should develop a Start-up. However, an entrepreneur should be a motivated self-starter and be prepared to confront numerous hurdles.

Inversely, a structured “intrapreneur” with an appetite to grow and prosper under the umbrella of a successful brand name and a proven business model will find the franchising option enticing. Though such individuals generally have a lower risk tolerance, franchise owners should expect to adapt to adverse and unforeseen circumstances related to the franchised brand.

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