

4 reasons a business should consider franchising

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Over the last couple of years, we have seen a sharp increase in mergers, acquisitions, joint ventures and other forms of collaboration between entities, as owners scramble to expand, innovate and increase their overall competitive advantage in highly saturated markets.



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Although often overlooked in South Africa, franchising is a form of 'co-operation' which holds promise for increased profit and expansion for business of all sizes in almost any conceivable industry.

On the one hand, franchising plays a fundamental role in building the South African economy, as it accelerates knowledge and skills transfer and fuels economic growth by fostering a culture of entrepreneurship in industries where skills and knowledge are generally lacking.

On the other hand, it gives entrepreneurs a lower cost option to expansion by allowing them to convert the intellectual property in their business from a simple registration at the trademarks office to an income generating item on their balance sheet.

Key benefits of franchising

- ***Commercialising the intellectual property in your business***

Franchising is a specialised licence of an existing business model and underlying intellectual property. This means that an entrepreneur is able to use already existing intellectual property assets and goodwill to generate new streams of income, which will ultimately improve the overall value and return of those intellectual property assets.

- ***Expansion with a reduced financial risk***

The franchisee is responsible for raising the funds required to open and operate a new franchise. This means that the franchisor ultimately benefits without having to dilute its own equity, increase its liabilities or enter into any new leases or other commercial contracts which would bind the principal business.

- ***Reduced labour risks***

The franchisor does not assume any of the obligations or bear any responsibility for the employees of the franchisee's business. This means that the overall labour and human resource obligations and challenges arising from the franchisee's business are borne by the franchisee alone.

- ***Greater geographical presence***

Unless there is an extremely high demand for it, very seldom are various franchises opened within close proximity to one another. This means there is increased market reach as stores are generally strategically placed in order to reach more potential customers and develop market share in those regions.

For entrepreneurs with profitable, established business models that demonstrate competence as well as consumer acceptance, franchising may be the key that enables them to unlock the true potential of their business, and compete with larger corporations without having to dilute the business' equity or incur large amounts of debt.

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