

## **Business Focus: Opening a Franchise**

A **franchise** is a grant or right to sell a company's product in a specified region. Franchising occurs when the entrepreneur of an established business grants the right to sell its already-known product or service. This right comes at a cost to the **franchisee**, the owner of the franchise, but the chance of success is generally high because both the franchisee and the company selling the franchise have an interest in seeing the business succeed. Examples include McDonalds, Taco Bell, Papa John's Pizza, Dillard's, Pier 1 Imports, Radio Shack and others. Entrepreneur Magazine provides a listing of various franchises available for sale and costs for different regions of the country.

Some entrepreneurs like Kentucky Fried Chicken's Harland Sanders got into franchising to save his business. The Colonel already had a successful restaurant in Corbin, Kentucky, where he sold fried chicken using his secret recipe of 11 herbs and spices. However, his business nearly failed when a new highway routed traffic away from his location. Rather than close down, Colonel Sanders decided to franchise his business and the rest is history. Today, Kentucky Fried Chicken's Worldwide Headquarters is open for tours in Louisville, Kentucky, and tourists can visit the Colonel's restored restaurant and museum in Corbin where it all began.

**A franchise may operate as a sole proprietorship, a partnership, or a corporation.** The owner of a franchise can still be considered an entrepreneur although he or she is selling another company's product or service. The entrepreneur is still responsible for the startup costs and daily operation of the franchise. The startup costs are usually high, and the franchisee will often have to pay an annual fee to the company in addition to a percentage of total annual sales.

While the initial startup cost and annual fees may appear to be a burden, the entrepreneur benefits because he/she has obtained the right to use the parent company's name and sell a high-profile product. This enhances the chance of success because the entrepreneur gets to sell a product that, like Kentucky Fried Chicken, has national recognition and is of uniform quality regardless of where it is sold.

Finally, the parent company that issues the franchise also has an interest in seeing the franchisee succeed. Therefore, the parent company often provides expertise concerning location, training, advertising, and other matters that will help increase the chance of a successful operation. One result of these efforts is that the rate of failure among franchises is generally much lower than that of other types of businesses.