

Opportunities and Challenges for Franchise Business in Nagpur City

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Abstract: *Franchising as a way of doing business is often used in economically developed and developing countries. The franchise model of doing business is very successful in the USA and European countries, however, in India doing business using the franchise model is still in a nascent stage. Moreover, the attraction and growth rate for franchise business in India has been increasing significantly over the last two decades. Initially, the franchise business was limited to only big metropolitan cities of India such as Mumbai, Delhi, Chennai, Bangalore, Hyderabad, Pune, Kolkata, etc. But with the increasing popularity of the franchise business and its growth potential in a country like India, it is entering many small cities in India. This research article is an attempt of exploring opportunities and challenges for franchise businesses in Nagpur city which is located in the heart of India. Nagpur is the largest city in central India and the third-largest by population in Maharashtra state. The city is a Commercial, political, and financial centre for the Vidarbha section of Maharashtra. It is very famous for its Oranges.*

Keywords: Franchise business, Nagpur, opportunities, challenges.

I. INTRODUCTION

Franchising has long been regarded as an appealing approach to developing a firm, and of course, it provides significant benefits to small businesses looking to expand or establish. Franchising is one of the world's fastest-growing and most lucrative industries. Franchise businesses will be turning over an estimated \$ 2 trillion by the end of 2022. Franchising allows businesses to expand at a faster rate than any other way. Increasing the efficiency by which goods and services are distributed, brings impressive gains to any economy. Franchising is one of the handfuls of cultural innovations that simultaneously generate employment, profit, and entrepreneurship. Thousands of small-unit operators gain ownership rights and decision-making power because of it. Franchising has the impact of forging linkages between economies in emerging countries or countries shifting to a market economy. It promotes sharing of technologies, trademarks, marketing, intellectual property, and even architectural designs. In any section of the world where financial resources are limited and the need to replicate individual initiatives is high, franchising is an excellent development tool.

India is a geographically diverse country. Franchising in India is at a nascent stage. However, this industry has clocked a growth rate of 25-30%, the second-fastest-growing industry. In the US, 45% of the sales come from franchised businesses; India is still to reach that stage, where franchised businesses are as widespread as the local grocer.

With a population of more than 1.35 billion, India is poised to become the third-largest consumer market, behind only the U.S. and China; and India's consumer expenditure is predicted to increase from US\$1.5 trillion now to approximately US\$6 trillion by 2030. As a result, India offers a vast potential market for both multinational companies and in-house businesses. India has been a key hotspot for multinational businesses for the past 20 years. Some of the worldwide brands that have franchisees in India include Anytime Fitness, Baskin-Robbins, Burger King, Domino's, Dunkin', Johnny Rockets, KFC, Krispy Kreme, Pizza Hut, RE/MAX, Subway, McDonald's, Gold's Gym, and Toni & Guy.

With 4,600 active franchisors, India is already the world's second-largest franchise market behind the United States (50 percent regional brands, 34 percent national brands, and 16 percent global brands)

An individual joins a business owner with a trademark or trade name in a franchise business. The franchisee reinforces in the business an entrepreneurial spirit that makes it successful. A new entrepreneur desires to conduct business under the well-known brand name. He wants to reap the benefits of selling a product that is well-known and has a high level of client loyalty.

The franchisee hopes to reduce investment risk by associating with a well-established company through franchising. The trademark or trade name belongs to the franchisor, who sells the franchisee the right to use it. This payment is known as a franchise fee. The two entrepreneurs have to commit to a business contract. The contract governs the way both parties will conduct their business operations. The franchise model has been highly successful. The franchising strategy has proven to be extremely popular and has spread rapidly. American companies have been able to spread abroad to other countries like India.

Furthermore, because of Indian people's rising entrepreneurial tendencies, India presents a plethora of prospects for franchisors. According to estimates, about 35% of all franchise buyers are new to the industry. Previously, franchising was mostly done by those who already had a business, but today, franchise opportunities serve as a platform for first-time entrepreneurs. International franchises are particularly appealing to these young entrepreneurs.

In fact, industry estimates suggest that 90 percent of Indian companies fail within five years due to a lack of mentorship and structure, whereas franchising has an 85 percent success rate. More entrepreneurs are associating with businesses that promise a better success rate.

Franchises are one approach for India to address the issue of economic inequity. Furthermore, franchising is not only a terrific strategy to encourage self-employment, but it also creates a lot of jobs. A single franchise store might have anywhere from 5 to 30 employees. A total of 1.5 million jobs are expected to be created in India as a result of franchisees.

II. OPPORTUNITIES FOR FRANCHISE BUSINESS IN NAGPUR

In India, whether you are in a metro city like Mumbai, Pune or a smaller town, a quick look around the bustling markets will give you a sense of the presence of numerous brands all around. From heading to the nearest Pizza hut, Domino's, or KFC for a bite or for a shopping spree with brands like Levi's or the Gap, the Indian masses have helped franchising to rise substantially in recent years.

According to an Oxford's Economics report, Nagpur is projected to be the fifth fastest-growing city in the world from 2019 to 2035 with an average growth of 8.41%. It has been suggested as one of Maharashtra's Smart Cities, and it is one of India's top ten cities for Smart City Project execution.

Nagpur was ranked first in Maharashtra and second in India in the latest Union Ministry of Urban Development rankings of 100 developing smart cities. Nagpur, also known as the "Orange City," has officially been designated as Maharashtra's greenest, safest, and technologically advanced city. Apart from this, Nagpur is the winter capital of the Indian state of Maharashtra.

Moreover, Nagpur is the major education hub in Maharashtra. It has Only NIT (VNIT) of Maharashtra, IIM established in 2015, and a national law university established in 2016. It is known for many engineering, medical and management colleges of significance which include private as well as government colleges.

The Prime Minister of India inaugurated operations on Nagpur Metro on 8 March 2019. Nagpur Metro becomes the 13th Metro system in India to be operational in India. It is also being touted as the greenest metro rail in India. In addition to this, Nagpur has an international airport named Dr. Babasaheb Ambedkar International Airport which provides better connectivity with the other parts of the country and the world.

All the aforesaid specialties of Nagpur, growing population, and potential for further development make it suitable for the franchise business. When talking about franchises many franchisees are already operating in Nagpur, most noteworthy of them are Patanjali, Domino's Pizza, Archies, Dr. Batra's Clinic, KFC, First cry, Lenskart, Amul Scoop, Jockey India, KidZee School Franchise, Pizza Hut Subway, etc. However, the franchise business is still not fully exploited in Nagpur and there is further scope for growth of this kind of business.

III. ADVANTAGES OF FRANCHISING

There are several advantages of franchising. The franchise is developing a business that is built on tried-and-tested items and ideas. In the market, the products and services have already had a lot of success. Non-franchised businesses frequently fail within the first year. However, in a franchise model, the franchisor provides management, financial, and marketing knowledge to the new business owner. This improves the chances of success and minimise the risk of failure.

Since the franchisee does not have to invest money in brand awareness because the brand is well-known, the franchisee can start a business at a lower cost. Before committing to the business, the franchisee simply investigates how successful previous franchisees have been.

Every time the franchisor advertises his product the franchisee gains from adverts and the promotional campaigns selling more products than before. The franchisee is given support by the franchisor in terms of training, finances, marketing, and promotional advertisement, setting up the business, and advice even as the business continues.

Acquiring funds for a franchise business is easier since financial institutions are more ready to give money to a company that has achieved market success and has a well-known and successful brand name with a good reputation.

To run his firm, the franchisee is allocated a certain territory. In the area, the franchisor will not open any additional franchisee operations. In their territory, the franchisee might be said to have exclusive rights.

The franchisee gets all the benefits of the franchisor's established network of suppliers because the franchisor already has ties with the goods' suppliers. Communication and sharing ideas, as well as receiving support from other franchisees in the network, are also beneficial to the franchisee.

The franchisee, especially in long-term franchise agreements, has an ownership mentality. The person is more inclined to invest time and money in the company's expansion. When faced with a business difficulty, the person will not walk away. Because franchisees are required to contribute to a national marketing budget, the franchise system is able to pool resources.

Because operational compliance, marketing methodology, and retail presentation are all uniform, the franchising model has a better market image than alternative distributorship models.

The franchise owner is the proprietor of his own business and owns the tangible assets of the franchised outlet.

The franchisee gains from the franchisor the entire business concept with full training, assistance in every aspect of setting up and running the business, and access to necessary materials and supplies.

The franchisee gets access to global standards and international technology in products and services, without loss of control.

IV. CHALLENGES AND LIMITATIONS

It's simple to start a franchise, but it's not easy. Starting a franchise, like any other business venture, demands meticulous planning and strategy, followed by flawless execution, in order to expand and thrive in the long run. Before jumping into this type of business, there are a few things to think about.

Adapting to the franchising model entails a slew of legal considerations, ranging from registration to compliance with the country's numerous rules and regulations.

The business relationship between the franchisee and the franchisor is often fraught with difficulties. The franchisee may consider himself or herself to be in a partnership with the franchisor. The franchisor, on the other hand, acknowledges that the partnership requires leadership, which the franchisor must provide. As they discuss strategic direction and marketing goals, the relationship must be treated carefully.

The franchisee may not be able to sell products through other means of distribution, such as the internet, mail order, or special sales platforms. The franchisee may also want to expand into other markets. There may also be potential for mergers and co-branding with established rival chains. However, this decision will require the franchisor's consent.

The franchisee is not allowed to sell the franchise to just anyone. He must sell it to a franchisee who has been approved by the franchisor. As a result, terminating the commercial partnership takes longer. The franchisor receives a percentage of the company's profits.

There are costs that the franchisee must pay on a regular basis, such as ongoing management service fees. Profit levels, fees, territory allocation, monitoring, and performance management are just a few of the potential sources of contention that both sides must effectively manage. The franchise owner is not an independent entrepreneur. The franchisee must adhere to the franchisor's guidelines.

Financing for the franchisee is a problem area as many financial institutions do not recognize soft expenses as part of the project cost.

In the franchise business, the lower risk is offset by the lower reward for success.

V. CONCLUSION

Many businesses are opting for the franchise model to increase efficiency while also gaining a competitive advantage. Franchising, when successfully implemented, helps create a brand that can traverse boundaries and position a firm in a strategic position. The type of franchise that companies is determined by several factors depending on the needs of the company and the costs benefit outcomes of the franchises. As a result, when businesses attempt to thrive, it's critical that they take advantage of the benefits that come with such models while also keeping in mind the risks that come with such initiatives.

A high level of mutual trust between the franchisee and the franchisor is required for franchisees to succeed. The perceptions and understanding of franchising, and specifically the franchise relationship, by the business owner is a crucial factor in franchise growth. It is imperative that both Franchisors, as well as Franchisees, need to understand and honour their commitments & responsibilities towards each other.

Nagpur is going to be a metro city so various infrastructure projects are taking place at various places in Nagpur. Nagpur is a geographically and politically important city. There are many prestigious educational institutes and colleges located in Nagpur because of this fact it is also called an education hub. In addition to this, Nagpur is well connected with other parts of the country by rail and airport facilities. Metro train improved the connectivity inside the city. Many franchise businesses already operating in Nagpur city and there is further scope for such businesses. However, anyone who wants to open a franchise business in Nagpur requires to choose the location carefully and need to understand the working of the franchise business.

There are huge opportunities for franchise business in Nagpur city, especially in the areas like Education & Training, Food and Beverages, clothing, retail, and manufacturing. For a manufacturing unit, the preferred location would be outside the limit of the city where real estate prices are low and a talented workforce is available.

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