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# A Study Of Swot Analysis Of Service Based Franchise

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**ABSTRACT**

*SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates. The main purpose of this study to find out the strength and weaknesses, threats and opportunities of services based franchise. The primary data for the study have been collected with the help of survey. The secondary data have been collected from the books, journals, research reports, magazines, articles, newspapers and websites.*

**Keywords:** Swot, Analysis, Business, Environment.

## 1. INTRODUCTION

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates. In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the fir operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization. An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

**Strengths -** Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained. Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency. Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

**Weaknesses -** Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

**Opportunities -** Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities. Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

**Threats -** Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

**Advantages of SWOT Analysis**

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.

b. Builds organization's strengths.

c. Reverse its weaknesses.

d. Maximize its response to opportunities.

e. Overcome organization's threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

**WHO NEEDS SWOT ANALYSIS**

**JOB HOLDER**

1. Assigned to a new job.

2. New financial year fees target.

3. job holders seek to improve performance.

**BUSINESS UNIT**

1. When the team as not meet its targets.

2. New team leaders are appointed.

3. Customer services can be better.

**COMPANY UNIT**

1. When revenue cost and expensive targets are being achieved.

2. Lunching a new business ventures.

## INTRODUCTION OF FRANCHISE


Franchising is everywhere. We read about franchising in business pages of our newspapers, business magazines and on the Internet. Although traditionally franchising has been known as a concept which is especially well-suited to the fast-food industry, most people are surprised to learn that the franchising method of doing business is so pervasive and that it is expected to account for 1/2 of all retail sales in the United States in the near future.

A creature of the last half of the twentieth century, franchising may be the most dynamic concept to have taken root in retail businesses in modern times.

Having grown from a few American chains operating primarily in the fast-food and hotel industry during the 1950s, the franchise method of doing business is becoming an increasingly important business force in countries of all sizes throughout the world.

### History

Franchises developed in the mid-nineteenth century. Isaac Singer, the inventor of the sewing machine, created franchises to distribute his machines more effectively to larger areas. The idea of franchises spread to the restaurant industry in the 1950s when Ray Kroc, founder of McDonald's, began selling franchises to spread the fast food chain throughout the U.S. and the world. In the U.S., current franchise opportunities go beyond fast food chains and include convenience stores, such as 7-Eleven, hair salons that include Supercuts, and hotels that include Hampton Inn.

| FRANCHISOR | FRANCHISEE |
|---|---|
| Owns trademark or trade name | Uses trademark or trade name |
| Provide support: | Expands business with franchisor support |
| (sometimes) financing advertising and marketing training | |
| Receives fees | Pays fees |

### Rights and duties of parties to a franchise agreement

**Franchise agreements generally cover the following:**

- Quality control standards.
- Training requirements.
- Covenants not to compete.
- Arbitration clauses.

**Forms of franchise fees:**

- Initial license fee—a lump sum payment for the privilege of being granted a franchise.
- Royalty fee—a fee for the continued use of the franchisor's trade name, property, and assistance that is often computed as a percentage of the franchisee's gross sales.
- Assessment fee—a fee for such things and advertising, promotional campaigns, and administrative costs.
- Lease fees—payment for any land or equipment leased from the franchisor.
- Cost of supplies—payment for supplies purchased from the franchisor.

### SCOPE OF FRANCHISE IN INDIA

The franchising industry as a whole wants to get recognised as a separate industry like in other major countries of the world. As per recent reports, the Indian franchise industry is estimated at $24 billion with a healthy year-on-year growth of 30 per cent. Its size is estimated to reach $35 billion by 2020.The industry provides job opportunities to a large pool of unemployed people across the globe, thus those in the trade feel recognising it as a separate industry will give a boost to the business and open more job avenues, which has also been Prime Minister NarendraModi’s agenda.

### OBJECTIVES OF THE STUDY

Each research study has its own specific purpose. It is like to discover to question through the application of specific procedure. But the main aim of our research to find out the truth that is hidden and which has not been discovered as yet. Our research study following objectives:-

The Main objectives of the study are:

1. To find out the strength and weaknesses of services based franchise
2. To find out the threats and opportunities of services based franchise.

## 2. REVIEW OF LITERATURE

According to Franchise Facts 2011, today, franchising is big business, and there are over 3,000 franchise systems in the USA. Franchising is an entrepreneurial activity that plays a crucial role in the creation of new jobs and economic development. In addition to this, Franchising is a prominent part of the economy and a central phenomenon in entrepreneurship. Practitioners often recommend franchising as a method that entrepreneurs can use to assemble resources to create large chains rapidly. In addition to this,

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it is a method recommended especially for entrepreneurs who can create large chains with franchising. In return, the franchisee pays an up-front fee and on-going royalties to the chain operator. A franchise is an agreement granting a person or group of individuals (the franchisee) the right to market a product or service using the brand name and operating methods of a business (the franchisor) in exchange for a fee. Moreover, Franchising has literally reshaped the retail landscape since its infancy in the 1950s. By most estimates, franchising now accounts for $1 trillion in annual retail sales from approximately 320,000 businesses in 75 industries and employs more than 8 million people. In franchising, a chain operator–entrepreneur collaborates with a franchisee–entrepreneur to create economic value. Specifically, the franchisee obtains from the chain operator the right to market goods or services under its brand name and to use its business practices (Barthelemy ,2011). In the global market, franchising adds value by enhancing the understandings of local culture, customs, and values (Contractor F. J and Kundu, S. K., 1998). According to IFA Educational Foundation, 2005, franchise businesses are important to the overall economy, generating over $1 trillion in annual sales—representing 17% of the U.S. Gross Domestic Product—and averaging 300 new franchise start-ups each year. There are approximately 901,093 franchisees and they are employing approximately 18 million people, in turn generating an economic output of over $2.1 trillion which equals about 40.9% of the U.S. retailing sector (Dant, R.P., Grünhagen, M. and Windsperger, J. 2011).

Swot analysis of franchise

SWOT analysis has its origins in the 1960s. In addition to this, the key tool used presently in planning the national sustainable development is Strengths, Weaknesses, Opportunities and Threat (SWOT) analysis, which originates from the business management literature and was adopted in the 1980s by public administration across such areas as regional development and municipal planning.

SWOT analysis is an important decision-making support tool, and is commonly used to systematically analyze the strategic situations and identify the level of organizations from their internal and external environments. Having identified these factors strategies are developed which may build on the strengths, eliminate the weaknesses, exploit the opportunities or counter the threats. This analysis helps organizations, projects or even individual about systematic thinking and comprehensive diagnosis of factors. In addition to this, the organizations can identify their positive and negative factors and then develop and adopt a strategy resulting in a good fit these factors. The strengths and weaknesses are identified by an internal appraisal of the organization and the opportunities and threats by an external appraisal. The last version of SWOT analysis is developed by Dealtry in 1992. According to him, the steps are built on strengths, eliminate weaknesses, exploit opportunities and mitigate the effect of threats. The SWOT analysis is used to identify the advantages, disadvantages, threats and opportunities of franchising. This is shown in table below:-

| STRENGTH | WEAKNESS |
|---|---|
| Brand Recognition | High Cost<br>(a) Initial Cost<br>(b) On-going Cost |
| Lower Risks for Failure | Dependency |
| Easy Setup | Strict Rules |
| Ready Customer Portfolio | Lock in period |

| | |
|---|---|
| Easy to Find Financial Support | |

| OPPORTUNTIES | THREATS |
|---|---|
| Entrepreneurs have chance to become their own boss | The decline of branding in market |
| It offers some market opportunities like discovery and exploitation | Other new franchise competitors entering market place |

**Advantages of Franchise:-**

Nowadays, franchising is the most favourite business model because of its satisfactory circumstances to the franchisors. According to Bohi, "Franchising have some benefits advertising, training, networking, technical support, and other business support services that many one-man operations cannot afford. The best known advantages are

- Brand Recognition is a very powerful component in business. According to the online dictionary, brand recognition is a marketing concept that shows customers' knowledge of a brand existence. To open a franchise offers a brand which has already established and people are familiar with. A national franchise consulting and marketing firm, works with franchisers to help them sell to prospective franchisees and to refine their brand.
- Lower Risks for Failure Entering in an industry, the most important thing for entrepreneurs is the lower risk for failure. There is a big difference in failure rates for entering in a new market and entering in a known market. According to the Department of Commerce statistics further reveal that franchisor-franchisee failure rates are substantially below the failure rates for new business in general.
- Easy Setup One of the most challenging things for entrepreneurs about entering in a new market is how to build. Franchising eliminate this problem because they often provide easy setup for franchisors. According to Cavaliere and Swerdlow, "the franchisee gets its entire business format from its franchisor; this includes marketing strategy and plan, operating manuals and standards, quality control and continuing two-way communications"
- Ready Customer Portfolio the most important affect is to comfort of knowing which means customers know that they can find the same quality and same service of the product or service. Most of the franchise business' customers are known as loyal customers. Loyal customer is the most valuable capital for businesses. According to Robert Bosch, "I prefer losing money instead of losing customer confidence".
- Easy to Find Financial Support Banks and similar institutions provides convenience to the franchises about getting funding and financing because it is known that there is a low failure risk rate in franchising. Banks will prefer to finance a known business model than a new business.

**Disadvantages of Franchise** Even though franchising has some advantages, buying a franchise has some major drawbacks faced by a franchisor.

- High Cost Buying a franchise has some costs such as start-up expenses,

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utilities, rent, franchising fees, employees and taxes. These costs divide into initial and on-going costs.

(a) Initial Cost means non-refundable initial franchise fee. Franchisees pay the franchisor a one-time fee upon joining the system and subsequently pay a percentage of their gross sales as royalties. In addition to this, the Franchise Disclosure Document (FDD) requires that the document be presented to potential franchisees within 10 days before the franchisors receive the first payment from the franchisee.

(b)Ongoing Costs Franchisees have to some expenses except initial payment like rent, royalties, advertising fees, equipment maintenance, employees, insurance and inventory, a percentage of the gross sales to the franchisor. The percentage of gross sales is generally between 3-10 percent on the gross sales and the payments like rent which means fixed and made by each month.

- Dependency Another problem is dependency which means franchisees has own business but franchisor has their own business independently. According to Cavaliere and Swerdlow, Franchisors obtain money from franchisees, some of which translates into profits from the franchising activity itself, and also indirectly obtain expansion capital which is at the sole liability of the franchisees". Franchisors want to follow franchisees because franchisees want to convert their investments to the profit and franchisor wants to be a part of the profit.
- Strict Rules The other problem is strict rules, it means franchisees have an own business but it governed by franchisor. Franchisor gives a long list of guidelines to the franchisees and franchisees have to follow these rules. Franchisees have to serve the same service to the customers and use same material and equipment.

## 3. RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problem. It deals with the objective of a research study, the method of defining the research problem, the type of data collected, method used for data collection and analyzing the data etc. the methodology includes collection of primary and secondary data.

- Primary data
- Secondary data

Research is totally based on primary data and Secondary data can be used only for the reference. Research has been done by primary data collection, and primary data has been collected by filling a required format. The secondary data has been collected through various journals and websites.

## 4. RESULTS AND DISCUSSIONS

**FRANCHIZE BUSINESS IN INDIA**:

- Franchising industry growing at the rate of 40%
- 200 home Grown Franchisor & 2, 50,000 Franchises. (Growing entrepreneurship).
- 85% success rate via 90% failure in self startup.
- Industry of over US $4 Billion.
- Highest retail outlet density in the world. (Approx 12 million).
- Remains the best entry & expansion strategy.
- Small format businesses are key economy drivers.

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**SWOT ANALYSIS OF ULTA SALON**

ULTA Salon, Cosmetics & Fragrance, Inc. is a chain of beauty superstores located in the United States. ULTA Beauty carries a variety of cosmetics and skincare brands, men's and women's fragrances, and professionally licensed haircare products. Each store is also equipped with a full-service salon. The company is headquartered in Bolingbrook, Illinois. [3] ULTA Beauty's logo is a white "ULTA Beauty" print against their signature peach colored background.

**History**

Ulta Salon, Cosmetics and Fragrance was founded by Richard E. George, the former President of Osco Drug, Inc. Following his tenure, Terry J. Hanson, another Osco veteran, became the CEO. In September 1996, Hanson hired Charles "Rick" Weber, another Osco veteran, to be Chief FINANCIAL Officer. In December 1999, Lyn Kirby, formerly of Sears Circle of Beauty, became the President and Chief Executive Officer and Weber became Senior Executive Vice President, Chief Operating Officer and Chief Financial Officer. The two ran the business together until Weber left in September 2006 when he was selected by Tom Stemberg, founder of Staples, to become Chairman and Chief Executive officer of Rec Room Furniture and Games, Inc. [4] On October 25, 2007, the company became publicly TRADED on the NASDAQ. In 2008, the company opened a second distribution center in Phoenix, Arizona. On April 26, 2010, ULTA announced that Mr. Carl "Chuck" Rubin would be appointed as Chief Operating Officer, President, and as a member of the Board of Directors, effective May 10, 2010. According to public filings, Chuck Rubin earned over $11.1MM in 2010, making him one of the 20 highest paid CEOs in Chicago.


| Strengths | Weaknesses |
|---|---|
| Supply chain keeps ulta salon stocked | Weak management |
| Cost and size advantages due to size to ulta salon | High staff turnover is a problem ulta salon |
| Unique product at ulta salon | Weak management could hurt ulta salon |
| Customer are loyal to ulta salon | |
| Brand name-ulta salon | |
| **Opportunities** | **Threats** |
| Online market provide more opportunities for ulta salon | Bad economy could lower need for hair cuts |
| Constant innovation | Change in tastes could hurt profits at ulta salon |

| | |
|---|---|
| Introduce new product and service | Substitute product- ulta salon |

**Variables that are affecting profitability of Services based franchise**

- COMPLETE TRANSPARENCY:- Service based franchise is highly secured and transparent sector because it has no loop holes as it is totally based on accounting software and here hardly any employee may deceive his/her boss.
- TIMELY UPGRADATION SOPS :- Standards Operating Procedure(SOPS) or manuals are used widely in franchised businesses mainly in service based as it allow franchisees to replicate the business models from A to Z allow franchisors to maintain a high level of quality control over its franchisees the way they manage the brand's franchise operations. Sops are widely used across every sector where franchising is used as a cost effective concept for tapping aggressive expansion plans. Sops are regarded as vital tool for making a successful enterprise. No one can deny the fact that well- planned Sops are certainly play a key role in stimulating profits, enhancing productivity and attracting more customer\client.
- CHALLENGES:-The future would be bright but there are challenges that need to be addressed in financial based franchises. Financial services provide work under a challenging scenario. They battle uncertain market conditions, fear of sharp risk involved and regulatory pressures. If person looks for opening in the financial services sector, he must make himself aware of the challenges that the industry is facing at present.
    - Low level of financial literacy:- There is dearth of those who actually understand the concept of the financial product that they are selling. Also, many customers are still not aware of exactly what they are getting into and how will their product work for them.
    - Unclear regulations:- Often unclear regulations and ambiguousguidelines are the big hurdle that needs to be crossed.
    - Shallow talent pool:- Financial service required high quality, intelligent people.
- RESSION FREE BUSINESS:- Whatever the business is, it willhave ups and downs.Hair & beauty Salons i.e. service industry is a recession free business. It is said that as long as hair grows this business grows
- HIRE GOOD MANPOWER:- Franchisee can't succeed without good employees. A franchisee can be successful only when he trains his employees and subordinates well so that they treat customers in the same manner. A franchisee must hire and train the employees well for a shining business venture. Training programs are carried out from time to time in service based franchises in order to update with the proven methods of operating.Therefore, in service based franchise owner has to bear higher HR and recruitment cost as compare to product based franchise.

- A TIMELY SUPPORT IN OPERATIONS, SOFTWARE: - All successful businesses have systems in place to ensure the consistency of their offering and the management of their operations. The key to a successful franchise, however, is to have proven systems in writing that can be taught to franchisees. A franchisor needs to communicate to its franchisees all of the operational tools and systems needed to run a successful business. These include systems and forms for marketing, operations, finances, purchasing, and virtually every other aspect of running the business.

**FINDINGS**

.Franchisees have invested in their business and know that they can benefit directly from its success. Logically, for that reason, their commitment will be much greater than that of employees, who have made no such financial investment and are guaranteed to receive at least a basic wage at the end of each month, regardless of performance. However, money is not the only driving force for better performance. Since the business is their own, franchisees will take real pride in the service which they provide and will ceaselessly strive to exceed the expectations of their customers. This commitment will also reflect in their loyalty to the franchisor’s brand, because it is also the franchisee's brand, and they are intent on building up a business which can be sold on for profit at some future date.

Franchisee owner is much more dedicated than corporate employee. With their capital at risk, franchisees are much more motivated then employees to perform at their highest levels.

- Service based franchise requires less capital than Product based franchise. Even franchisor provides full-fledge training with a proven method of operating by using the name and trademark.
- In service sectors, franchisors are constantly faced with the recruitment of skilled workforce for specialty services in particular. Unless and until the rightly skilled manpower is not appointed in service sectors, the chances to be success are little.
- Banks and similar institutions provides convenience to the franchises about getting funding and financing because it is known that there is a low failure risk rate in franchising. Banks will prefer to finance a known business model than a new business.

## 5. CONCLUSION AND SUGGESTIONS

**Conclusion**

Based on a wide research, franchising offers brand recognition, lower risk rate for failure, easy to find financial support and easy set up in a business. When these are taken into consideration, Franchising becomes more advantageous

In short, franchising industry as a whole wants to get recognised as a separate industry like other major countries of the world. As per recent reports, the Indian franchise industry is estimated at $24 billion with a healthy year-on-year growth of 30 per cent. Its size is estimated to reach $35 billion by 2020.

This industry provides job opportunities to a large pool of unemployed people across the globe, thus those in the trade feel recognising it as a separate industry will give a boost to the business and open more job avenues, which has also beenagenda of government of India.

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In any business, there are both challenge and opportunities. And with many options to tap the market, one can take a franchise of any of the leading brand to see the real growth without creating new wheel.

**Suggestions**

• Staff retaining strategies must be employed by the franchisor at the grassroots level by the way of "Franchise Employment Engagement Programs" in order to create and restore employee's loyalties with the company which will automatically ensure better services at the franchisee's end.

• Confidence between a franchisor and franchisee is a must to achieve perfect Supply Chain Management. Both should play their respective role in the process of SCM. The franchisee also plays an important by keeping the record of sock under his surveillance. The companies need to create a technology platform through which efficient inventory management can be insured.

• Any franchisee looking for a business opportunity must evaluate the available options on the basis of following 3Ps:-

(a) People behind the company, their credentials, value system and time period they have served in business.

(b) Purpose of Company's existence, its vision and strategy.

(c) Product – its credibility, market acceptance and track record.

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