



Growth Partnership Strategies: Franchising and Licensing

Stand on the Shoulders of Another Business

"Franchising is simply a method for expanding a business and distributing goods and services through a licensing relationship."

— Leslie Anderson, U.S.-Based Entrepreneur¹

Want to play a key part in a business model that's already been figured out? Think about **licensing or franchising**. Both can enhance your access to already-conceptualized and proven business growth opportunities.

LICENSING

Licensing is an arrangement where one party sells the right to use their brand in some way. A license allows someone to pay to use an **intellectual property (IP)**—like content, or a design, idea, name or logo—that is owned by someone else (for more on IP, check out Intellectual Property Strategy in Ascent).² There are two general scenarios for how a license could play into your business:

1. You license your own brand or content.

Example: A U.S.-based entrepreneur with subject matter expertise in a unique and popular area licensed her company's content for use by organizations around the world, from workforce development sites in the United States to nonprofits abroad. The agreement was for a per-person price. Prior to this, the entrepreneur researched price ranges for similar content. She also had a particularly good relationship with one of the clients and asked her about price ranges.

2. You get a license to be allowed to use a certain intellectual property (IP).

Example: A U.S.-based entrepreneur with a unique clothing design obtained a license to make the clothing in the colors of certain universities and market it to the college and university community. She applied to use the colors and logos through a central point: an organization that managed the licensing for many universities across the United States.



The license gave her company a competitive advantage and—along with her unique designs—was a major strategy behind growing her business.

FRANCHISING

Within licensing, there's franchising. Franchising is different from buying a business. A **franchise** gives one party the right to sell another party's product or service through an extension of their business.³ Through franchises, companies can expand the distribution of their products and services under their brand name.⁴ If you buy a franchise, you'll have the right to use the franchise system identity and business model in ways specified by the owner of the franchise system. Creating and selling your own franchise system means you determine that identity and business model for others to purchase and follow. Examples of ways you can use franchising to grow your business include:

1. You buy an established franchise.

Example: A well-known company that hauls away junk has a certain number of territories in the United States and sells the franchise to an entrepreneur for her locality or territory. The franchisee wants to be part of an established brand and proven operational systems. The franchisor (headquarter company) requires up-front franchise fees (including capital to buy a truck). The franchisor takes a percentage of all sales. The franchisor handles all marketing, incoming calls and booking jobs for the franchisee.

2. You franchise (i.e., sell franchises of) your own business.

Example: You meet with a franchise consultant who tells you your concept for hair blowouts in your three profitable retail locations is perfect for franchising. You put together a FDD (franchise disclosure document)⁵ and make sure you have your trademarks registered and your operations manual ready. You'll register the franchise in states where you want to operate, then dig into the sales and finance sections of your business plan to do projections, and make sure you have enough money to grow.⁶

Tip: For more franchising resources, check organizations like the [International Franchise Association](#) and the [American Association of Franchises and Dealers](#).

THE RELATIONSHIP BETWEEN LICENSING AND FRANCHISING

So what's the difference between licensing and franchising? You can think about the relationship between franchises and licenses like this: "While every franchise is a license, not every license is a franchise under the law."⁷ A franchise is a form of a license that allows you (as the licensee) the right and responsibility to use a whole business system of a company—including their name, trademarks and products.⁸

Part 1: Weigh Franchising/Licensing Pros and Cons

So what are the advantages and disadvantages of buying a franchise or license?

Check out the pros and cons listed below.

FRANCHISING

Pros

- **Brand recognition:** With a franchise, you can become a partner within a larger business structure, getting exposure and name brand recognition.⁹
- **Assistance:** A great benefit of a franchise is that you'll get help along the way from the franchisor (the creator or operator of the franchise) with things like marketing strategy, operating manuals, quality control and business advisory support.¹⁰ They can also provide training to teach you about how to operate the business, even if you don't have experience in the industry.¹¹
- **Reduced risk:** Assuming a franchise is reputable, there might be less risk involved. Franchises are packaged to be successful using techniques that have worked for past franchises,¹² and they often have a customer base already waiting.¹³

Cons

- **Costs:** If you own a franchise, you would be responsible for paying up-front franchise fees (ranging from a few thousand dollars to hundreds of thousands), monthly royalties (based on a percentage of income or sales), and the cost of required purchases to make the franchise uniform with others.¹⁴ There can also be costs to exit the franchise.¹⁵
- **Reduced control:** You as a franchise owner would be required to follow the terms of the franchise agreement, which can mean less decision-making power.¹⁶

LICENSING

Pros

- **Increased sales:** Using a well-known brand or design can help you sell more products (e.g., t-shirts, toys) than you could without the license.¹⁷
- **Credibility:** You can often give your consumers a greater sense of authenticity and legitimacy by using a brand that is familiar to them.¹⁸
- **Reduced risk:** Licenses can bring lower amounts of risk because the products or ideas licensed are well-known and often have a pre-established customer base.¹⁹
- **Fewer investments:** Compared to buying a franchise, getting a license can allow you to expand without investing in additional distribution networks and locations.²⁰
- **Easier entry:** License agreements are generally finalized more easily than franchise agreements.²¹

Cons

- **Reduced assistance:** Unlike franchises, licenses don't typically come with much support in using the license—it's up to you to figure out the best usage.
- **Limitations:** With a license, you could face limitations on your usage of a product if the licensor chooses not to renew the license.²²
- **Costs:** If you license, you would most likely be responsible for paying a licensing fee. While this can result in higher sales, the fees need to be factored into your profit margin.

Part 2: Should You Buy a Franchise or License?

Does it make sense for you to buy a franchise/license? What about licensing your business's own brand or content? Choose the method that suits your current business needs and goals. While this is no substitute for your own due diligence and research, here are some ideas to get started.

FRANCHISING

Ask yourself the following questions to help you decide whether buying a franchise is the right path for you:

1. Am I looking to leverage an established brand and business model?

If the answer is Yes, then a franchise can be a way to achieve this. Good franchises have researched market need, built their brand, and tested and tweaked their operational model, and they pass that knowledge on to the franchisee.

2. Do I want to 100% be my own boss?

If the answer is Yes, then a franchise might not be the right step. With a franchise, you may have to abide by franchisor policies.²³ If you want to hold onto the reins and grow your own innovative ideas, sticking with your own business may be a better path for you to take.

3. Do I want to have help setting things up?

If the answer is Yes, then a franchise may be the way to go. A franchise can give you aspects of your business that are preplanned.²⁴

Tip: Many retirees are becoming franchise owners because they have less experience in the industry and benefit from the guidance of franchisors and other franchisees.²⁵

LICENSING

Ask yourself the following questions to help you decide whether buying a license is the right path for you:

1. Do I want more control over managing my business?

If the answer is Yes, then a license may be a better fit for your needs. With a license, you retain freedom over how your business is run.²⁶

2. Am I looking for a way to increase sales, with few requirements?

If the answer is Yes, then buying a license to use another company's IP could help you meet your goals. Licenses allow you to piggyback on the success of someone else's great idea, while boosting your own sales at the same time.

Part 3: Find a Franchise or License to Buy

If you've assessed the advantages and disadvantages of buying a franchise or a license and think it's something you want to pursue, it may be time to start seeking out opportunities.

FRANCHISES

Across 80 different industries, there are around 3,000 different franchising companies²⁷—how should you choose the right one?

Take the steps below to locate and evaluate franchise opportunities:

Finding Opportunities

- **Ask around:** If there's a franchise you already have an interest in, you can start by contacting the franchisor. You can also get in touch with existing franchisees.²⁸

Tip: For more franchising resources, check organizations like the International Franchise Association and the American Association of Franchises and Dealers.

- **Search the web:** There are a number of Internet sources that list franchises for sale (e.g., [International Franchise Association](#)).
- **Thumb through the paper (or swipe):** Both small and large publications typically have sections that list franchises for sale.
- **Read magazines and trade journals:** Magazines (e.g., Entrepreneur, Success, Inc.) and trade journals (e.g., Franchising World, Wall Street Journal, USA Today) often have opportunities as well.²⁹

- **Contact a business broker:** These agents can help you find franchises that fit your criteria, and they sometimes screen franchise opportunities to identify potential problems.

Tip: Business brokers charge franchisors a fee that is only paid if a sale is made, so your sales price may be higher as a result.³⁰

Evaluating Opportunities

- **Research the franchisor.** This step is key, because you can lose a sizeable amount of money if you buy a franchise without careful research beforehand.³¹

Check out the reputability of the franchisor you are considering franchising with, including areas such as:

- Their experience in the industry and in managing a franchise system³²
- Their financial health and any bankruptcies they may have filed³³
- Legal action or complaints filed against them, especially by any of their franchisees (Better Business Bureaus or consumer protection agencies in your state can have this information.)³⁴
- **Get a Uniform Franchise Offering Circular (UFOC).** This form has important information about the legal, financial and personnel history of the franchise.³⁵
- **Take a look at the franchise package.** Examine details such as fees to the franchisor (e.g., royalties, advertising, insurance), required purchase or leases of land/buildings, equipment and inventory needed, length of the contract, and training provided.³⁶
- **Thoroughly read the franchise disclosure document (FDD).** This document outlines information on the franchisor company, fees associated with the franchise, and your obligations as a franchisee.³⁷

LICENSES

Some common types of licenses from recent research were entertainment/characters (45 percent), corporate/brand, fashion (12 percent) and sports (10 percent).³⁸ But how might you go about finding a license option that suit your needs?

Take the steps below to locate and evaluate license opportunities:

Finding Opportunities

- **Check out directories.**
 - Search for licensors, licensees and properties or products with licensing directories (e.g., [Licensing International](#)).

- Look for organizations that deal with licensing in your industry (e.g., [Digital Media Licensing Association](#)).
- Scope out existing patents, trademarks or other designs on IP databases (e.g., the United States Patent and Trademark Office's (USPTO) [Trademark Electronic Search System](#)). You could initiate a licensing discussion for IP of interest.

Evaluating Opportunities

- **Learn about the license.**
 - Make sure the license agreement shows proof that the licensor owns the IP in question and has the right to license it.³⁹
 - Figure out if you can afford the cost that the license will add to the product you're going to sell. It can save time and effort to start out with this practical calculation early on.⁴⁰
 - Get a sense for what documentation, training and other support will be available to you in using the IP.⁴¹

Conclusion:

As an entrepreneur, you can use franchising and licensing to boost your revenues, develop multiple income streams, and create better products and services.⁴² Consider these partnerships as one possible growth strategy at your business.

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