A franchise is “an arrangement in which the owner of a trademark, a trade name, or a copyright licenses others to use the trademark, trade name, or copyright in the selling of goods and services” (Cross & Miller, 2012). In other words, a person who buys a franchise, the franchisee, purchases the rights to sell the products or services of an established brand. This form of business is beneficial because it eliminates the process of building a product or brand from scratch. Franchisees immediately enter the market with a customer base and brand equity. Based on this information, would you be interested in becoming a franchisee?

If the answer is yes, there are quite a few important questions to answer. For one, what industry sectors are flourishing this year, in 2012? Also, what trends are affecting consumer tastes and values? Furthermore, what weaknesses or threats may franchisees face? And lastly, what important factors exist for upcoming franchisees to consider? All of these points contribute to current trends in franchising. Identifying these trends will help business people interested in entering the franchise world.

Industry sectors that are expected to continue growth in 2012 include fitness, health services, senior care, food, and resale stores, among many others. To break this list down, the first broad industry to discuss is personal care. Personal care made up about ten percent of Entrepreneur magazine’s annual rankings of the “Franchise 500” in 2011, proving this industry’s popularity (Stapp, 2011). This includes the sectors of fitness, health services, and senior care.
As people become more health-conscious and increasingly monitor their health and weight, there is a growing market for fitness. Nowadays, fitness has become more geared toward recreational activities such as dance, kick-boxing, and martial arts, as opposed to the typical treadmill or elliptical machine (Pipes, 2011). This fitness trend has set the stage for many new franchises, such as Fitness Revolution, FitGolf, and Baby Boot Camp to be successful. The importance of children’s fitness has also played a part in this fitness craze, making room for franchises such as Soccer Shots, JumpBunch, and TGA Premier Junior Golf (Rowe, 2012). Clearly, fitness is an important area of business to consider if wishing to enter the franchise world.

The next area of personal care involves health care and senior care. With 40 million senior citizens living in the United States right now, and the first of the Baby Boomers turning 65 within the past year or so, it is obvious why health care and senior care are two growing industries for franchisors. In fact, the population of people over the age of 65 is supposed to reach 80 million, double the size it is now, within the next twenty years (Pipes, 2012). To exhibit this sector’s growth, in-home senior care accounted for the largest category in the “Franchise 500” list of 2011, represented by over thirty-four companies (Stapp, 2011). Home Instead Senior Care, Right at Home, and Visiting Angels are just a few senior care franchises that have taken advantage of this trend (Rowe, 2012). All in all, the increased demand of health care and senior care due to the country’s population demographics has allowed for new franchise opportunities.

The next two growing sectors to discuss are directly affected by the recent economic recession. The first is the food industry. For one, the economic conditions have forced consumers to look for food options that give the most “bang for their buck”. In other words, consumers want to spend their money on food that is of great value yet not too expensive. With this being said,
quick-service restaurants have increased in popularity. In fact, its category accounted for over twenty percent of the “Franchise 500” list of 2011 (Stapp, 2011).

Burger restaurants, in particular, are taking precedent in the food industry trends. The amount of ranked burger joints in the 2011 “Franchise 500” doubled what it had been the previous year (Stapp, 2011). There are a few reasons for this trend. Firstly, as mentioned earlier, consumers are more prone to choose a hamburger over steak due to their narrowing wallets (Pipes, 2012). Also, customers are positively responding to the latest trend in “fast casual” as opposed to “fast food”. “Fast casual” restaurants are believed to offer menus of greater value than “fast food” restaurants but still at a reasonable price. Five Guys Burgers and Fries would be a “fast casual” burger restaurant that many burger lovers would choose over a McDonald’s (Halpert, 2010). Evidently, the food franchises, especially when it comes to burger restaurants, are expected to continue growth this year.

The next growing industry is retail. Similar to the food industry, due to the latest recession, people are more interested in finding clothes, electronics, and other products of high quality for a decent price. Therefore the resale stores, such as consignment shops and thrift shops, have been highly successful this year (Stapp, 2011). Some examples of successful franchises of this sector include Plato’s Closet (Halpert, 2010), Just Between Friends, and Rhea Lana’s (Rowe, 2012).

To further identify important franchise trends of 2012, it is necessary to consider what new or continuing consumer trends will affect franchises. The first is technology. As technology plays an increasingly important role in the lives of consumers and acts as a key source of information, it is important for franchises to connect with their customers on a technological level. Franchises cannot simply work out of brick-and-mortar venues anymore. They need to
create a virtual existence through websites, mobile apps, etc. (Pipes, 2012). For example, Dominos allows customers to submit and pay for personalized orders online. Their website even gives updates on the customer’s order, including the employee’s name making the food and how long the pizza has been in the oven. Utilizing this technology is a huge way to gain competitive advantage in the current franchise world.

Another trend that may impact franchise development this year is the idea of mobile food. This includes food vendors that are so-called portable, such as food trucks. As our culture becomes more fast-paced and people continue to multi-task, it is important for franchisors to ensure their franchise is readily available to consumers (Pipes, 2012). If this means doing business out of a mobile truck, then that is what needs to be done.

A third and final trend of 2012 that is sure to affect franchisors is going green. Our environment’s health and the importance of protecting our earth have gained a great deal of awareness. People are more conscious of the significance of recycling and the effects of littering than ever before. Therefore, the demand of environmentally-friendly products is seeing continued growth in our culture. For example, Subway, the third franchise listed in Entrepreneur magazine’s 2011 top 10 fastest-growing franchise list, serves their salads in recycled salad bowls (Pipes, 2012). All in all, it is important for franchisors to follow the consumer trend of going green when making business decisions.

The next point of assessment is the weaknesses or threats franchisees may face when entering the franchise world. The first is franchise fees. Start-up costs and royalty fees can be outstanding. Royalty fees are the percentage of sales the franchisee must pay the franchisor (these may be weekly, monthly, annually, etc.). Furthermore, raw material costs may produce prices five to ten percent above the market value of a necessary good for the franchise. These
prices are set by suppliers that franchisees are required to purchase raw materials from. The franchise typically has a special relationship with the supplier in which rebates are obtained on items ordered. This rebate system ensures loyalty to that supplier. Additionally, most franchises do not offer financing for these included costs. Therefore, the franchisee must figure out a way to finance the franchise all by themself. To put this into perspective, a typical McDonald’s franchise can entail $500,000 to $1.6 million in fees or costs (Investopedia, 2009). Therefore, franchise fees and costs should be points of major consideration for franchisees.

A continued look at franchise threats uncovers the issue of competition. As many have probably noticed, franchises seem to open as many locations in one town as possible. For example, in Oswego, NY alone, there are three Subways. Although these are all the same company, the multiple locations actually act as competition and therefore hurt the franchisee’s business. Another setback to franchises is the creative inability placed upon franchisees. Uniformity is a central concept to franchises. Every location serves the same food, has the same décor and environment, and offers the same level of service. Therefore, business people looking to express their creative minds may not want to become a franchisee (Investopedia, 2009). Clearly, franchising has some weaknesses that are important to consider.

When contemplating a new business venture, it is always helpful to gain advice from people experienced in the field. The Daily Beast interviewed Roberta Hipes, a franchise owner of Plato’s Closet, and Bill Marble, a franchise owner of Five Guys Burgers and Fries, to find out some advice on building a successful franchise. One recommendation from Hipes is to sell what you know. Entering a familiar industry that one has a passion for will shine through in that franchisee’s success. Also, play to the times. If the economy is bad, then tailor your business model toward what consumers in the market can afford. Marble advises to do homework on the
company. Find out the company’s recent growth, its values, mission statement, relationship between franchisor and franchisee, etc. Furthermore, treat your staff well. Motivate them through bonuses for exceeding expectations. Marble mentioned he awards employees fifty to seventy percent bonuses on top of their regular salaries for superior performance (Halpert, 2010). Studying and investigating ways successful franchisees made it to the top will be helpful for franchise first-timers.

Evidently, franchising may seem quite simple on the surface but deep down it is very complex. There are many factors to consider as a franchisee and franchisor. These factors include trends such as what industry sectors are expected to continue growth, as well as trends in consumer tastes and values. It is also necessary to identify possible downfalls or risks that may arise in franchising, such as fees, costs, and competition. Lastly, advice from successful franchisees can help in ensuring a franchise’s success.
References


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