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Franchise Dynamics: A Comprehensive Research on Ownership Models and Operational Resilience in the Post-COVID Landscape

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Abstract

This study explores the franchising business model post-pandemic, focusing on the four major types of franchising: COFO (Company Owned Franchise Operated), FOFO (Franchise Owned Franchise Operated), FOCO (Franchise Owned Company Operated), and FICO (Franchise Invested Company Operated). The study examines the factors that have impacted the franchising industry during and after the pandemic, as well as the challenges and opportunities that franchisors and franchisees face in the current environment. The study also investigates the performance of the four franchising types during and after the pandemic, and identifies the key factors that have contributed to the success of some franchisors and franchisees more than others.

Keywords: franchising, post-pandemic, business model, ownership and performance factors

1. Introduction

According to Webber (2013) franchising can be defined as contractual agreement by and between two parties where one party (the Franchisor) extends the right to the other party (the Franchisee) to carryon an independent business under the trade mark or trade name of the Franchisor and to receive sufficient privileged know-how, derived through the Franchisor's experience in operating such a business, throughout the term of the agreement, consisting of all components as to enable a previously inexperienced person to establish a successful business under the Franchisor's brand.

The franchising business model is a popular way to start and grow a business. In a franchise relationship, the franchisor grants the franchisee the right to use the franchisor's brand name, trademarks, and business system in exchange for a franchise fee and ongoing royalties.

Franchising has been a resilient business model in the past, but it was not immune to the challenges of the COVID-19 pandemic. Many franchisors and franchisees experienced significant financial losses during the pandemic, and some were forced to close their doors permanently.

This study explores the franchising business model post-pandemic, focusing on the four major types of franchising:

- COFO (Company Owned Franchise Operated): The franchisor owns and operates some of the franchise locations, while the franchisee owns and operates others.
- FOFO (Franchise Owned Franchise Operated): The franchisee owns and operates all of the franchise locations.

- FOCO (Franchise Owned Company Operated): The franchisee owns the franchise location, but the franchisor operates it.
- FICO (Franchise Invested Company Operated): The franchisee invests in the franchise location, but the franchisor owns and operates it.

2. Objectives

The objective of this study is to:

- Examine the factors that have impacted the franchising industry during and after the pandemic.
- Identify the challenges and opportunities that franchisors and franchisees face in the current environment.
- Investigate the performance of the four franchising types during and after the pandemic.
- Identify the key factors that have contributed to the success of some franchisors and franchisees more than others.

3. Scope of Research

This study will focus on the franchising industry. This study will review the existing literature on the franchising business model, with a focus on the impact of the pandemic. The study will also identify the key challenges and opportunities that franchisors and franchisees face in the post-pandemic era.

4. Review of Literature

The franchising business model has been the subject of extensive research. However, most of the research has focused on the pre-pandemic era.

There is limited research on the impact of the pandemic on the franchising industry. However, the existing research suggests that the pandemic has had a significant impact on franchisors and franchisees alike.

For example, a study by the International Franchise Association found that 68% of franchisors reported a decrease in sales during the pandemic. The study also found that 44% of franchisors had to lay off employees. The pandemic has also had a significant impact on franchisee profitability. A study by Fran Net found that 62% of franchisees reported a decrease in profits during the pandemic. The study also found that 27% of franchisees were considering closing their businesses.

Despite the challenges posed by the pandemic, there are also some opportunities for franchisors and franchisees in the post-pandemic era. For example, the pandemic has accelerated the growth of e-commerce. This presents an opportunity for franchisors to develop new e-commerce strategies for their franchisees.

The pandemic has also led to increased demand for certain types of franchise businesses, such as home-based franchises and essential services franchises.

5. Methodology

5.1 Research Design:

This study employs a qualitative research approach to explore successful franchise models, emphasizing ease of operation, robust business control, and sustainability. Qualitative research enables an in-depth examination of the experiences and perspectives of thriving franchises, fostering a comprehensive understanding of their operational dynamics. The research design encompasses literature review and case studies to unravel key insights into the factors contributing to their success.

5.2 Data Collection:

Data collection for this research employs a multifaceted approach to ensure a comprehensive and diverse understanding. The primary methods include:

- Literature Review: Conducting a meticulous review and analysis of academic journals, books, conference papers, and relevant industry reports to establish the theoretical framework and identify key concepts and frameworks associated with successful franchise models, ease of business, high control, and sustainability.
- Case Studies: Undertaking in-depth case studies on successful franchises to explore their incorporation of sustainable practices, ease of business, and effective control. Selection criteria for case studies include factors such as industrial sector, size, location, and sustainable performance.

6. Franchising Structures:

6.1 COFO (Company Owned Franchise Operated)

The COFO (Company Owned Franchise Operated) model represents a sophisticated choreography between corporate ownership and decentralized operational execution. Under this framework, the company retains ownership of the business, entrusting day-to-day operations to franchisees.

- **Strategic Ownership:** Within the COFO model, the company strategically maintains ownership, preserving control over overarching business strategies, brand standards, and key decisions. This allows for a unified brand image and consistency across diverse franchise locations.
- **Operational Efficiency:** One striking insight within the COFO model is the pursuit of operational efficiency. By offloading daily operational responsibilities to franchisees, the company can concentrate on strategic planning, innovation, and brand development. This bifurcation enhances agility, especially in response to market dynamics.
- **Cost Dynamics:** While the COFO model is often associated with companies seeking to minimize operational costs, it's essential to recognize the flexibility within this structure. Companies may choose to share specific operational costs, demonstrating a collaborative approach that fosters a sense of partnership with franchisees.
- **Market Leverage:** A key advantage of the COFO model lies in its applicability to established markets where the company already enjoys a positive reputation. The existing goodwill serves as a solid foundation, making it an ideal model for companies looking to leverage their brand strength for franchise expansion.

- **Strategic Collaboration:** COFO is not merely a cost-cutting strategy; it's a strategic collaboration. By dividing responsibilities, it optimizes the strengths of both the company and the franchisee. The company can focus on strategic initiatives, while franchisees contribute their local insights and operational expertise.

In essence, the COFO model is a delicate balance, harmonizing corporate ownership with decentralized operational execution. As companies navigate the complexities of modern business landscapes, COFO emerges as a strategic framework that aligns ownership goals with the pursuit of operational excellence.

6.2 FOFO (Franchise Owned Franchise Operated)

Within the FOFO (Franchise Owned Franchise Operated) model, a distinctive paradigm emerges, encapsulating the essence of franchise autonomy. In this framework, the franchisee not only owns the business but is also responsible for day-to-day operations, marking a departure from the conventional COFO model.

- **Exploring Autonomy:** Unlike the COFO model, FOFO places a premium on franchisee independence, providing them with the ownership reins for both strategic decision-making and operational intricacies. This autonomy empowers franchisees to infuse their entrepreneurial spirit, bringing localized insights and innovations to the forefront.
- **Financial Independence**: One notable insight within the FOFO model is the emphasis on financial self-sufficiency for the franchisee. Beyond ownership, they bear the entire operational financial load. While this might deter those seeking cost-sharing, it attracts individuals keen on full control and the potential for higher financial returns.
- **Strategic Localization**: A noteworthy advantage of the FOFO model lies in its ability to strategically navigate diverse markets. Franchisees, intimately acquainted with local nuances, can tailor operations to cater to specific consumer behaviors and preferences. This local touch not only enhances customer satisfaction but also augments the overall adaptability of the business.
- **Entrepreneurial Synergy**: FOFO is a testament to the entrepreneurial synergy between the franchisor and the franchisee. While the franchisor provides the blueprint, the franchisee, as the local custodian, infuses vitality and adaptability into the model. This dynamic interplay fosters a sense of ownership and pride, contributing to the long-term success of the franchise.

In essence, the FOFO model is more than a business arrangement; it's a strategic collaboration fostering entrepreneurial zeal and local resonance. As franchisors seek new avenues for growth and adaptability, FOFO emerges as a compelling model, sculpting a narrative of franchise empowerment and strategic localization.

6.3 FOCO (Franchise Owned Company Operated):

In the FOCO (Franchise Owned Company Operated) model, a distinctive fusion unfolds, where franchisees take on the ownership mantle while the company retains control over day-to-day operations. This model introduces a nuanced interplay between entrepreneurial ownership and corporate-operated consistency.

- **Empowered Franchise Ownership:** One captivating insight within the FOCO model is the empowerment of franchisees as business owners. While they assume ownership responsibilities, the company actively manages the operational facets. This unique blend allows for a localized entrepreneurial spirit while ensuring adherence to corporate standards.

- **Operational Expertise by the Company:** Under the FOCO model, companies play a pivotal role in the day-to-day operations, leveraging their expertise for consistent service delivery. This approach is particularly beneficial in maintaining brand integrity and upholding quality standards across diverse franchise locations.
- **Shared Financial Responsibility:** An intriguing aspect of the FOCO model is the shared financial responsibility. While franchisees take charge of ownership costs, the company bears the operational expenses. This financial collaboration fosters a sense of partnership, aligning the interests of both parties in the pursuit of mutual success.
- **Strategic Brand Alignment:** FOCO finds its strength in markets where a uniform brand image is paramount. The company's direct control over operations ensures a standardized customer experience, making it an ideal model for industries where brand consistency is a critical success factor.
- **Hybrid Synergy:** The FOCO model represents a hybrid synergy that marries local entrepreneurship with corporate operational finesse. This unique collaboration allows franchisees to focus on building community relationships, while the company ensures that the overarching brand vision is upheld with precision.

In essence, FOCO is more than a business model; it's a strategic alliance that harmonizes franchisee ownership with corporate operational excellence. As companies seek innovative structures to navigate diverse markets, the FOCO model emerges as a compelling narrative of shared responsibilities and strategic brand alignment.

6.4 FICO (Franchise Invested Company Operated)

In the FICO (Franchise Invested Company Operated) model, a novel paradigm emerges, where franchisees make a financial investment in the business, yet the company retains direct control over day-to-day operations. This model delineates a unique landscape that combines franchisee investment with corporate-operated efficiency.

- **Franchisee Financial Stake**: A pivotal insight within the FICO model is the financial involvement of franchisees. By investing in the business, franchisees demonstrate a commitment beyond operational duties. This financial stake instills a sense of ownership, aligning their interests with the long-term success of the venture.
- **Corporate Operational Control:** Under the FICO model, companies maintain direct control over operational intricacies. This control is crucial for ensuring standardized processes, quality assurance, and brand consistency across diverse locations. It strikes a balance where corporate expertise meets the entrepreneurial vigor of franchisees.
- **Financial Collaboration and Risk Sharing:** FICO introduces a noteworthy aspect of financial collaboration. While franchisees invest, the company assumes the operational risks. This dynamic sharing of financial responsibilities fosters a collaborative environment, where both parties are vested in the success and resilience of the business.
- **Brand Standardization in Diverse Markets:** The FICO model finds its strength in ventures aiming for brand standardization in diverse markets. Companies can navigate market nuances with

precision, leveraging their operational expertise while accommodating local insights brought in by franchisees. It's a strategic approach to achieving both consistency and adaptability.
- **Strategic Partnership for Growth:** FICO is not merely a financial arrangement; it's a strategic partnership. The combination of franchisee investment and corporate operational control creates a symbiotic relationship, where each party's strengths contribute to the overall growth and sustainability of the business.

In essence, the FICO model is a delicate dance of financial collaboration and operational control. It represents a strategic evolution in franchise models, blending the financial commitment of franchisees with the operational finesse of corporate management. As companies seek innovative structures for growth, FICO stands as a testament to the power of strategic partnerships in the ever-evolving business landscape.

7. Types of Franchising Models

- **Commercial Franchising:** In commercial franchising, the primary focus is on generating profits through the sale of goods or services. It involves a legal and commercial relationship between the owner of a trademark, brand, or business system (franchisor) and an individual or entity (franchisee) that operates under the franchisor's business model. The franchisee pays fees or royalties to the franchisor in exchange for the right to use their established brand, products, and support services. The main goal is financial success, and the relationship is centered around business profitability.
- **Social Franchising:** Social franchising, on the other hand, places a strong emphasis on achieving social or public welfare objectives. While it follows a similar franchising structure, the primary goal is to deliver social impact or community benefits. Social franchising models are often seen in sectors such as healthcare, education, or community development. The franchisees may be involved in providing essential services to underserved populations, and the success of the franchise is measured not only in financial terms but also in terms of positive societal outcomes.
- **Hybrid Franchising**: A hybrid franchising model combines elements of both commercial and social franchising. This approach seeks to create a sustainable business model that generates profits while also addressing social or environmental issues. In a hybrid model, the franchise may integrate practices that contribute to community welfare, environmental sustainability, or other social goals, all while maintaining a viable commercial operation. This blending allows businesses to pursue financial success while being socially responsible, reflecting a holistic approach to franchising.

8. Covid-19 Impact on franchising

- The profound economic repercussions triggered by the COVID-19 pandemic are reshaping the landscape of how individuals, businesses, and economies operate in India. This crisis, unprecedented for the franchising community in the country, has yielded immediate and discernible effects. The closure of salons, pre-schools, K12 schools, food outlets, retail shops, and other sectors within the franchise industry is readily apparent.
- Certain franchise chains, particularly in travel and tourism, retail, and food and beverages, are anticipated to face a lasting decline in demand, presenting challenges that may prove difficult to overcome. However, amidst these economic adversities, a silver lining emerges as new industries and opportunities come to the forefront, instilling a renewed sense of hope for recovery.
- Industries offering essential services at the doorstep, such as door-step banking, telemedicine, online doctor consultations, online retail, and online education, are poised to experience a notably positive

impact. These emerging sectors not only adapt to the current circumstances but also contribute to the resilience and potential growth of the franchising landscape in the post-pandemic era.

9. Intersection of Covid-19 and aftermath of franchising:

- **Impact on Traditional Franchising Structures:** The pandemic has notably impacted traditional franchising models, particularly those reliant on physical presence and in-person interactions. Sectors such as travel, hospitality, and brick-and-mortar retail within the franchise industry have faced substantial challenges due to lockdowns and restrictions, resulting in decreased demand and operational disruptions.
- **Adaptation to Digital Franchising Models:** Conversely, the crisis has accelerated the adoption of digital and remote-friendly franchising models. Franchises offering online services, telemedicine, and doorstep deliveries have witnessed a surge in demand. This shift highlights the resilience of franchises that can swiftly adapt to changing consumer behaviors and preferences.
- **Resilience in Essential Services:** Franchises operating in essential service sectors, such as healthcare and online education, have showcased resilience during the pandemic. The ability to provide critical services remotely or at the doorstep has not only sustained these franchises but positioned them for growth in the evolving business landscape.
- **Financial Impact and Franchise Ownership Structures**: The financial implications of the pandemic have influenced franchise ownership structures. Franchisees with limited resources may face challenges in sustaining their businesses, particularly in sectors directly impacted by lockdown measures. This may lead to a shift in ownership dynamics, with larger companies or investors playing a more active role in supporting and acquiring struggling franchises.
- **Emergence of Micro Franchising Opportunities:** In response to economic challenges, there is potential for the emergence of micro franchising opportunities. The need for low-cost entry and simplified operations may drive the development of franchises catering to local needs, creating new entrepreneurial opportunities in communities affected by the economic downturn.
- **Strategic Alliances and Collaborations:** The pandemic has underscored the importance of strategic alliances and collaborations within the franchising ecosystem. Franchisors and franchisees collaborating on digital transformation, shared resources, and innovative business models can enhance the overall resilience and adaptability of the franchising community.
- **Adaptive Strategies for Long-Term Resilience:** Overall, the current data suggests that franchising structures need to adopt adaptive strategies for long-term resilience. Embracing digitalization, diversifying service offerings, and exploring collaborative partnerships are crucial elements for franchises to navigate the uncertainties brought about by the pandemic and position themselves for sustained growth in the future.

10. Effect of Pandemic over the structure of Franchise:

10.1 COFO (Company Owned Franchise Operated):

- COVID-19 Impact: The COFO model, where the company maintains ownership while franchisees handle operations, faced challenges during lockdowns and decreased consumer footfall. Companies with established goodwill in sectors like retail may have experienced a temporary decline in franchisee-operated outlets.
- Adaptive Strategy: COFO franchises may benefit from increased collaboration with franchisees to navigate operational challenges, implement digital solutions, and explore innovative ways to maintain brand consistency during disruptions.

10.2 FOCO (Franchise Owned Company Operated):

- COVID-19 Impact: FOCO franchises, where franchisees own the business but operations are managed by the company, could have faced financial pressures as the company bore the operational expenses during lockdowns and reduced revenue.
- Adaptive Strategy: FOCO models might explore cost-sharing strategies, leverage company-operated expertise for adapting to digital platforms, and collaborate closely with franchisees for local market insights.

10.3 FICO (Franchise Invested Company Operated):

- COVID-19 Impact: FICO models, where franchisees invest but the company manages operations, may have encountered financial challenges for franchisees during economic downturns.
- Adaptive Strategy: FICO franchises could explore financial assistance programs for franchisees, implement flexible payment structures, and collaborate on innovative operational strategies to ensure the viability of the business.

10.4 FOFO (Franchise Owned Franchise Operated):

- COVID-19 Impact: FOFO franchises, with franchisees owning and operating the business, may have faced both financial and operational challenges during lockdowns.
- Adaptive Strategy: FOFO models could focus on local community engagement, leverage franchisee entrepreneurial spirit for creative solutions, and explore cost-sharing initiatives to weather economic uncertainties.

11. Inferences Across Models:

- **Digital Transformation:** All franchising models need to accelerate digital transformation initiatives to adapt to the rise of online services and changing consumer behaviors during and post-pandemic.
- **Collaborative Resilience:** Collaborative strategies between franchisors and franchisees, irrespective of the ownership structure, are crucial for resilience. This includes shared resources, information exchange, and mutual support during challenging times.

12. **How FOCO overcame Covid-19:**

The FOCO (Franchise Owned Company Operated) model, characterized by centralized operations, demonstrated notable resilience during the challenging landscape imposed by the pandemic. This section explores how the model's structure, with the company retaining control over day-to-day operations, facilitated agile decision-making and coordinated responses.

- **Digital Transformation Initiatives**
  Digital transformation played a pivotal role in the adaptive strategies of FOCO franchises. This section delves into how the model embraced online ordering systems, digital payment options, and contactless services. The swift implementation of these technological advancements enhanced customer engagement and safety, aligning with evolving consumer expectations in the new normal.

- **Standardized Operating Procedures**
  Examining the strength of standardized operating procedures within the FOCO model, this section highlights how uniformity in operations across franchise outlets contributed to the consistent implementation of health and safety protocols. This standardization ensured compliance with regulations and maintained brand consistency, fostering consumer trust.

- **Optimizing Supply Chain Dynamics**
  The FOCO model's adaptability in supply chain management is explored in this section. The centralized control over operations, including the supply chain, allowed franchises to reevaluate and optimize logistical processes. This proactive approach ensured a steady flow of products or services, mitigating disruptions caused by pandemic-induced challenges.

- **Financial Collaboration and Support**
  In navigating economic uncertainties, FOCO franchises benefited from financial support and relief measures provided by the central company. This section delves into how this collaborative financial approach demonstrated a commitment to franchisee well-being and contributed to resilience during challenging economic conditions.

- **Flexibility in Offerings**
  Examining adaptability in service offerings, this section focuses on how FOCO franchises, particularly in the food and beverage sector, collaborated with franchisees to introduce or emphasize takeout, delivery, or online ordering options. This flexibility aligned services with the changing preferences and behaviors of consumers in response to the pandemic.

- **Training and Support Mechanisms**
  Highlighting the crucial role of centralized training and support, this section explores how FOCO franchises assisted franchisees during the pandemic. Companies provided updated guidance on health protocols, operational changes, and customer engagement strategies, empowering franchisees to navigate the complexities of the evolving business landscape.

Thus summarizing how the FOCO model demonstrated resilience through its centralized management, adaptability to digital transformation, standardized operations, supply chain optimization, financial collaboration, flexibility in offerings, and robust training and support mechanisms. This multifaceted approach positioned FOCO franchises for sustained success in the post-COVID era.

Conclusion:

In the post-pandemic landscape, the FOCO (Franchise Owned Company Operated) model emerges as a resilient force, navigating the complexities of the COVID-19 era with strategic finesse. The model's success lies in its ability to seamlessly integrate franchisee ownership with corporate oversight, showcasing a harmonious balance between autonomy and operational efficiency.

A key aspect of FOCO's resilience is its swift adaptation to digital transformation. Embracing online platforms for ordering, digital payments, and contactless services, the model not only ensured customer safety but also aligned with the evolving preferences of a post-pandemic consumer base. This technological agility became a cornerstone in maintaining relevance and competitiveness.

The strength of standardized operating procedures within the FOCO model played a crucial role in fostering trust and compliance. Consistent implementation of health and safety protocols across franchise outlets not only upheld regulatory standards but also contributed to a sense of reliability and assurance among consumers. This standardization became a bedrock for navigating the uncertainties of the pandemic landscape.

Furthermore, FOCO's resilience is evident in its agile supply chain management and collaborative financial approach. The model's adaptability in optimizing logistical processes and sharing financial responsibilities between the central company and franchisees created a mutually supportive environment. This collaborative spirit not only weathered economic uncertainties but positioned FOCO franchises for sustained success in the dynamic post-COVID era.

In conclusion, the FOCO model's strategic fusion of franchisee ownership and corporate-operated efficiency proved instrumental in overcoming the challenges presented by the pandemic. As businesses continue to evolve, FOCO stands as a testament to the strength of strategic alliances and adaptive strategies in thriving amidst unprecedented disruptions.

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