

Why Franchising

Alem & Associates

Barristers & Solicitors

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Franchising can be fairly defined as the granting of certain rights by one party (franchisor) to another party (franchisee), in exchange for a financial consideration, as to enable the franchisee to engage in the business of selling products and/or services under franchisor's trademark, service mark, trade name or logotype using a specific system developed and previously tested by the Franchisor.

Franchising is not a magic formula that will always guarantee the success of a business expansion. However, franchising has clear benefits to both, franchisee and franchisor.

Taking into consideration the franchisor, franchising has become one of the best vehicles for fast, cost effective, successful business expansion and market penetration.

Through franchising, the franchisor has the opportunity to expand its business, to market its products and services and to generate cash flow through utilizing the capital and human resources of the franchisees.

Franchising has also given the franchisors the opportunity to quickly overcome geographical and cultural barriers in introducing its products and services beyond its main domicile.

On the other hand, and taking into consideration the franchisee, acquiring a franchise gives the franchisee the opportunity to operate a "successful formula" comprised of recognized products and/or services, brands and trademarks, methods of operation, regional/international advertising and ongoing assistance (know-how).

Several elements comprising the franchisor's system such as centralized marketing, recognized brands, training and operational procedures may reduce the risk of business failure when compared with the start-up of a non-franchised business.

Commonly, and from a legal and financial perspective, franchisor and franchisee are independent entities. However, from the perspective of the consumer, the franchisor and franchisee are seen as one single entity and this is due to the business uniformity set by the franchisor's system.

The element of business uniformity found in franchising will benefit the franchisee as well as the franchisor.

Consumers will not differentiate between the legal entities (franchisor and franchisee) and will tend to see only the brand involved in the franchise. Thus, the franchisee will benefit from the global image and success of the franchise and the franchisor will benefit from the individual success of the franchisee's operation, which will add value and good will to the brand and the whole franchise system.

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