

15.4: Franchises

A **franchise** is when a business grants to another the sole right of engaging in a certain business or in a business using a particular trademark in a certain area. Franchises are not a separate form of business organization. Rather, they are a form of contract between businesses. Most franchises involve corporations or limited liability corporations, but they may include sole proprietorships and partnerships.

The advantage of a franchise is that under a **franchise agreement**, an entrepreneur can open and run a business under a proven business model. The local owner, the **franchisee**, uses the **franchisor's** trademark, intellectual property, and business model under a license agreement. The franchisee offers goods or services to the public and keeps any income earned. In exchange for the right to sell goods or services developed by the franchisor, the franchisee pays a fee to the franchisor.

Franchises are common in some industries such as fast food restaurants, hotels, and tax preparation services. Franchise agreements are very detailed and often require the franchisee to use specific vendors, ingredients, store layouts, colors, etc.

Franchises are also very popular with US businesses interested in conducting business abroad. US businesses collect franchise fees from owners in other nations who are responsible for running the business abroad. This allows US companies to have a presence in nations that may restrict business ownership by foreigners because the businesses themselves are owned and operated by locals.

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