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Licensing and Franchising in International Trade

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Licensing and Franchising in International Trade

With the growing technology and improvement in transport and communication, domestic trade in industries has an opportunity to venture into new markets beyond borders. This document discusses the merits and demerits of licensing and franchising as strategies in export and international trade.

Licensing

According to Delaney (2019), licensing is one of the best ways to penetrate the global market and entail a contractual agreement between two parties. One of whom is the licensor or the owner of the proprietary assets, and the other party is the licensee, who acquires the assets to commence business. Normally royalty fees are paid upon agreements and can either be timely or once depending on the initial agreement between the parties involved. The main advantage of licensing to the licensor is the ability to exploit a new market. Licensing represents a need for products or expertise to manufacture a product by a different market. Therefore, there is a guarantee of a new market at the same time growth of the business brand.

Secondly, licensing save on company resources because all the production and operations costs get covered by the licensee reliving the licensor expenditures in these markets (Delaney, 2019). Thirdly, licensing hands over the business operations to a more knowledgeable party. The company, therefore, does not have to carry out market research to create new connections within the locality as the licensee who is knowledgeable of the trends and culture of the industry takes care of it. Regarding the licensee, the main advantage of acquiring a patent or a copyright license is producing quality and internationally certified products and mostly being sure that the product is of the highest quality.

Having licenses also cuts the importation cost when raw materials needed to manufacture the products are available locally. This way one only imports the items that are not readily available within the country. However, the main disadvantage of licensing is that one entrusts a different person with their product and brand. The business has limited control over the licensee when the deal has been closed given they pay their royalties. Thus, in case of lack of enthusiasm by a licensee, the brand and product reputation is damaged (Delaney, 2019). A good example of the top global licensing companies is Warner Bros earning from licensed products such as superhero toys, and kids costumes and accessories. They are one of the largest film producers in America. Also, another company is Japanese Sanrio, which licenses and produces products with their animation brand.

Franchising

Franchising entails two parties the first being the owner of a business brand or model, and the other is who requires the services. Franchising mostly entails brand names, unlike licensing that mostly involves patents and copyrights. In other words, most people are willing to consume other brands more than other local brands even when what they are buying is the same thing (Delaney, 2018). For a franchising agreement, the franchisee pays a flat fee to replicate the franchisor's product and continues to pay periodical royalties, mostly based on consumer purchases or sales. In some cases, the franchisee buys materials and even pays for expert staff from the franchisor.

The main advantage of franchising to the franchisee is in the acquisition of a globally renowned brand. For instance, acquiring an Mc Donalds' franchisee ends up attracting customers who know the quality of food offered by the food joint. Secondly, when acquiring employees from the franchisor, the franchisee gets knowledge and can train their staff to work better and efficiently. Reduction in advertisement and marketing costs is also an

additional advantage to the franchisee. Most of the advertising cost is incurred by the brand owner, and this later translates to more franchising proposals. Nevertheless, the main benefit of franchising to the owner is brand growth and breaking into foreign markets with limited risk (ICC, 2014). Secondly, additional income with limited investment, and operational effort.

One of the main franchising companies is Mac Donald's which is a fast-food company founded in America. Today it boasts of a presence in almost 100 countries. On the other hand, Jackson Fire and Security is a service franchise from the United Kingdom that offers fire and security solutions to businesses and households.

In summation, franchising and licensing help businesses earn more profit, increase income as well as creating job opportunities and social development. Franchising and licensing also enable trade with countries that have strict import regulations. Strategizing in licensing and franchising cuts costs for both parties involved, and they still get to trade using a globally recognized brand. Thus, licensing and franchising are more efficient and effective strategies for large companies and corporations aiming to expand to foreign markets when faced with limited resources and the inability to mitigate and deal with risks.

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