Global Journal of Leadership and Management
Vol. 1, No. 1, March 2026
https://journal.globalinsancita.id/index.php/gjlm

Franchising as a Successful Business Model Strategy

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Article History:
Received: January 9, 2025
Revised: December 27, 2025
Accepted: December 28, 2025

Keywords:
Franchise; Successful Business Model; Business Strategy.

How to Cite:
Mahdiyar, G., Damayanti, L., & Maisyarah. (2026). Franchising as a Successful Business Model Strategy. *Global Journal of Leadership and Management*, *1*(1), 1–8. Retrieved from https://journal.globalinsancita.id/index.php/gjlm/article/view/3.

***Abstract**: Franchising is a business model that continues to grow and evolve alongside technological advances and consumer lifestyles. The purpose of this study is to analyze franchising as a successful business model strategy through a qualitative approach and literature review. Through a review of the literature, this study found that the franchise business model is a preferred choice due to its low business risk, the replication of proven business models, and broader market potential. This study concludes that franchising, as a successful business model, can provide long-term benefits for entrepreneurs. This can be done by identifying the success factors of the franchise business model. Support systems include training and brand management. This study also provides prospective entrepreneurs and investors with insights into the advantages and potential of franchising as a business model, serving as a reference for business development.*

Introduction

Entrepreneurship is related to a creative and innovative ability that serves as the basic capital, tips, and resources to find opportunities for success (Saada, 2016). Entrepreneurship is the ability to create value for goods/services in the market by managing resources in new and different ways (Saada, 2016). Opportunities to own a business or start an enterprise are all around us, but not everyone sees them as such. The business opportunity currently in great demand is the franchise business because it offers several advantages, such as lower measurable risks, a proven business model, a widely recognized brand, and support and training from the franchise owner. Unlike in developed countries such as the United States and Europe, the franchise business is a relatively new phenomenon in Indonesia. Now it is becoming popular because, in addition to low costs and the fact that materials are already provided, it also does not take up much space. Many franchising models have emerged in Indonesia, including fast food such as KFC fried chicken, Turkish kebab, Wong Solo grilled chicken, Mixue Ice Cream, Pizza Hut, Mie Gacoan, and other service categories (Syahrani, 2012).

A franchise is a business model in which the owner of a trademark, product, or operating system (the franchisor) grants a third party (the franchisee) the right to operate a business using a well-known brand, product, or system. Franchising is considered a successful strategy for business expansion because it allows franchisors to accelerate market expansion at a lower cost, while providing entrepreneurial opportunities for franchisees seeking to own a business with lower risks. Many international brands, such as McDonald's, Starbucks, and KFC, have successfully implemented the franchise model to reach global markets and establish their brands worldwide (Oktaviani, 2024). In the modern business world, the franchise model has become a popular and effective strategy for business expansion. By allowing third parties to sell products or services using a proven brand and business model, franchising offers benefits to both parties: the brand owner (franchisor) and the franchise partner (franchisee). Franchising allows businesses to grow more quickly without significant capital investments from the franchisor, while providing opportunities for local entrepreneurs to start businesses with lower risks. This study aims to examine how franchising becomes a successful business model and the factors that influence its success.

The franchise business model is highly relevant in Indonesia because it allows local entrepreneurs to own and operate a proven business without having to create a product or business system from scratch. This helps reduce the risk of failure, especially for first-time entrepreneurs, while also creating jobs and stimulating the economy. Furthermore, franchising provides local brands with an opportunity to compete with international brands, creating a wider variety of choices for consumers. Examples of successful local franchises include Kebab Turki Baba Rafi, Sour Sally, and J.CO Donuts. These brands are not only successful domestically but are also expanding into international markets, such as Malaysia, the Philippines, and the United Arab Emirates. The success of these local franchises demonstrates the significant potential of the franchise business model in Indonesia to become competitive in the global market.

Method

This research uses qualitative methods. Qualitative methods are used to provide an understanding of phenomena related to the development and globalization of franchise businesses as business opportunities (Maqfiroh, 2025). The approach in this research is descriptive and a literature study. The descriptive approach is used to explain the feasibility analysis of franchise business expansion (Octalia et al., 2024). Furthermore, a literature review is used to identify references on entrepreneurship in the franchise business, tips for success, and challenges in managing a franchise business (Suarna et al., 2024).

Result and Discussion

The success of a business does not always stem from spectacular and innovative products or services. Often, an entrepreneur enters a niche market, making the right move to provide ordinary goods or services to customers who accept them. Franchising provides a unique form of business opportunity, involving formal arrangements and a set of relationships that dictate how a business should be run (Supardi & Mulyati, 2016). Franchising is increasingly popular among entrepreneurs because it is considered a marketable, fast-growing, and profitable business model. There are many successful franchises in Indonesia across sectors such as food and retail, including Gulu-Gulu, Sabana, Indomaret, Janji Jiwa, Alfamart, and others.

The franchise trend in Indonesia has shown significant growth in recent years, driven by factors such as stable economic growth, rising purchasing power, and greater interest among aspiring entrepreneurs in starting businesses with more controlled risks. According to the Indonesian Franchise Association (AWI), the number of franchises in Indonesia has increased by around 7-10% annually in recent years. This indicates that Indonesians' enthusiasm for the franchise trend is relatively high (Oktaviani, 2024).

According to Syafiina (2024), one of the main advantages of the franchise business model is the support the franchisor provides to the franchisee. This support includes everything from training and operational guidance to proven marketing strategies. With this support, entrepreneurs can learn from the franchisor's experience and reduce the risk of business failure. Research by Suarna et al. (2024) found that franchise success can generally be achieved through a consistent brand strategy, understanding the local market, strong relationships with the franchisor, technology adoption, and continuous innovation. Furthermore, it is also necessary to anticipate challenges such as competition with similar competitors, supply chain management, adapting to market changes, and financial management.

Discussion

Franchising has become a popular choice for new entrepreneurs and venture capitalists for several key reasons, making it more attractive and relatively safe than starting a business from scratch. Below is a more in-depth explanation of the factors underlying the popularity of franchising as a business option—first, a Tested and Proven Business Model. One of the main reasons franchising is a popular choice is that its business model has been tested and proven in the market. Franchisors have typically developed and optimized marketing, operational, and management strategies through years of experience. This successful model reduces the risk of failure for franchisees, which is significant in new independent businesses. This is especially advantageous for new entrepreneurs who may lack business experience. Common examples include McDonald's and Subway. Both brands provide strict operational guidelines and intensive support to their franchisees, enabling consistent success across all their branches, both in their home country and abroad. This established business model and structured operational structure are a significant draw for new entrepreneurs. (Oktaviani, 2024)

Second, Support and Training from the Franchisor. One of the key components of a successful franchise is the support and training provided by the franchisor to the franchisee. Franchisors typically provide initial training before the business begins operating, including on marketing, operations, and management. Furthermore, franchisors provide ongoing support, including regular training, technical assistance, and field supervision. This allows franchisees, especially those entering the business for the first time, to run their operations with greater confidence. "Training and support provided by the franchisor increase the chances of success for franchisees because they can leverage the franchisor's experience and knowledge to address business challenges" (Suarna et al., 2024). Ongoing support, such as regular training, technical assistance, and supervision, is also often provided by franchisors to help franchisees navigate challenges that arise in daily operations. This support creates a strong network between the franchisor and franchisee, making the franchise more manageable for new entrepreneurs.

Third, Strong Brand Awareness and Reputation. Franchises also benefit from the strength of their established brand awareness in the market. A strong brand is a significant draw for consumers, who tend to choose brands they already know and trust. This provides a significant advantage for franchisees, especially in competitive markets. Franchising allows new entrepreneurs to capitalize on an existing reputation and brand awareness, which typically takes years to build. With an established reputation, franchisees can attract customers more quickly and build greater consumer trust from the start. In Indonesia, several international franchises, such as Starbucks and KFC, have successfully leveraged strong brand recognition to attract loyal customers. Consumers tend to trust brands they recognize and that consistently deliver quality products or services. This gives franchisees an advantage, especially in competitive markets. (Syaifullah et al., 2024)

Fourth, Economies of Scale and Operational Efficiency. Franchising allows franchisors and franchisees to benefit from economies of scale, particularly in the procurement of raw materials and supplies (Rachmayani et al., 2022). In a franchise system, franchisors typically have developed a network of suppliers that can provide raw materials at lower prices because they purchase in bulk. This efficiency reduces operational costs and increases profit margins for franchisees. "The economies of scale achieved in franchising provide a competitive advantage for franchisees, as they can obtain raw materials at lower costs than independent businesses. Franchisors often have developed a reliable network of suppliers and provide franchisees with access to this supply chain. An example is Domino's Pizza, which sources raw materials directly from company-owned distribution centers, reducing logistics costs for each franchisee. This efficiency provides an advantage to new entrepreneurs who may lack supplier connections or experience in price negotiation.

Fifth, a Higher Chance of Success with Lower Risk. Numerous data show that franchises have a higher success rate than independent businesses. According to the International Franchise Association (IFA), franchises have a success rate of over 90% during the first 10 years of operation, significantly higher than independent businesses. The franchise model is considered more stable because franchisees follow a proven operational system. This lower risk makes franchises more attractive to capital investors looking to invest in a business. New entrepreneurs are often attracted to franchises because of the lower risk of failure. This provides a sense of security, especially for those who are averse to taking significant risks or who prioritize the security of their investment capital.

Sixth, Access to Franchise Networks and Communities. Franchises offer access to a network of other franchisees and a larger franchise community. This network creates a supportive environment where franchisees can learn from each other's experiences and best practices. Franchisors also frequently hold meetings or conferences to build relationships among franchisees, share experiences, and improve managerial skills (Syafiina, 2024). In Indonesia, many local franchises have adopted this approach. For example, Kebab Turki Baba Rafi regularly holds training, meetings, and events for its franchisees. Access to a supportive community that understands the same challenges is invaluable for new entrepreneurs in overcoming the difficulties they face in the field.

Seventh, a supportive community and network. Franchises also offer support from a broad community and network of franchisees, who share knowledge and experience. Franchisees typically have access to a community of other franchisees, often held through meetings or conferences organized by the franchisor. This allows franchisees to learn from fellow franchisees, solve common problems, and improve their managerial skills. "Support from the franchise community creates a conducive environment for franchisee success, especially when facing operational challenges.

Franchise businesses, despite their popularity and numerous advantages, still face several challenges that can impact their long-term success. Here are some of the main challenges in franchising: first, Dependence on Franchisor Quality. One of the main challenges in franchising is the franchisee's dependence on the franchisor to maintain brand quality and make strategic decisions. Franchisees are often in a vulnerable position because they rely on the franchisor to ensure consistent product and service quality. If the franchisor makes decisions that are not aligned with market needs or fails to maintain standards, the impact can be felt across all branches. "Dependence on the franchisor puts franchisees at risk of making decisions that are not always beneficial locally" (Syafiina, 2024).

Second, High Costs Reduce Profit Margins. Franchisees must pay an initial fee and ongoing royalties to the franchisor, which often constitutes a financial burden. Franchise fees and royalties can impact a franchisee's profit margin, especially if the business has not yet reached break-even (Syafiina, 2024). The franchisor's fee structure often poses a challenge for franchisees, especially in the early stages of operations, as these costs can erode margins and slow growth.

Third, Limited Creativity and Innovation for Local Adaptation. Uniform franchise systems often limit franchisees' ability to adapt to local markets and innovate. Franchisees faced with strict regulations may struggle to tailor services or products to meet local customer needs. "The standardized structure of franchising limits the franchisee's ability to adapt to the local environment, which sometimes reduces the business's attractiveness in certain markets."

Fourth, Potential Conflict between Franchisor and Franchisee. The relationship between a franchisor and franchisee can be challenging, especially when there are differing views on how to run the business. Conflict often arises from a power imbalance between the franchisor, who controls the brand, and the franchisee, who runs the local operations. The franchisor has greater power in strategic decision-making, while the franchisee is responsible for day-to-day operations. "The relationship between the franchisor and franchisee is often affected by this power imbalance, which can lead to conflict and dissatisfaction.

Fifth, the Challenge of Meeting Quality Standards. The franchise system requires all branches to meet the same standards, which can be challenging to implement. Franchisees need to ensure consistent operational and quality standards across all units, even when they face resource or skilled labor limitations. Maintaining consistent quality is a significant challenge in franchising, especially for franchisees in areas with limited access to labor and resources. Sixth, the Influence of Macroeconomic Conditions. Franchisees also face risks related to economic fluctuations. Franchisees often experience a decrease in income during economic downturns, while they still have to pay royalties to the franchisor. "Franchises are vulnerable to economic changes, because franchisees must continue to meet their financial obligations to the franchisor regardless of economic conditions.

Franchise Success Factors

Analysis of successful franchises shows that several factors, including operational consistency, franchisor support, local adaptation, brand strength, and supply chain efficiency, determine a franchise business model's success. Studies on these factors have been conducted by various researchers, providing in-depth insights into why and how franchising can be a successful business model. First, Operational Consistency and Standardization. Research shows that operational standardization is a critical factor in franchise success. Franchisors with clear systems and high operational standards enable franchisees to run a consistent business across multiple locations. "Standardization helps create a uniform customer experience across all branches, which increases consumer trust and loyalty to the brand." This consistency allows franchisees to minimize operational errors and maintain a strong brand image.

Second, Strong Franchisor Support. Franchise success also depends heavily on the franchisor's support and training. Franchisors that provide intensive support, such as management and operational training, can help franchisees maximize their potential.

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Third, Local Adaptation. Successful franchises often adapt to local market preferences while maintaining their global brand identity. Franchisors who are flexible in adapting their products or services to local market needs are more likely to succeed. For example, several major franchises, such as McDonald's, have successfully adapted their menus across countries to reflect local cultures and preferences. "Product adaptation that remains consistent with brand values is key for franchises to attract local consumers without losing their global identity."

Fourth, Supply Chain Efficiency and Economies of Scale. Supply chain efficiency is a critical element influencing franchise success. Extensive franchises with economies of scale can reduce raw material costs and ensure uniform quality standards across the network. This supply chain efficiency not only reduces operational costs but also helps franchisees maintain product quality. Economies of scale allow franchisees to operate at lower costs and maintain product standards. This provides a competitive advantage, especially in the fast-food industry, which relies heavily on operational efficiency.

Fifth, Brand Awareness and Customer Loyalty. Strong brand awareness results from a well-maintained brand image across the franchise network. "High brand awareness is a key factor in making a franchise attractive to consumers and increasing loyalty." Consumers who know and trust a franchise brand tend to be more loyal and choose that brand over competitors. This is a significant advantage for franchisees, as they do not need to build a brand from scratch but already have a strong customer base.

Sixth, the Ability to Overcome Competition. Studies show that successful franchises survive intense industry competition because they have a proven business model. The franchise system allows owners to operate with lower risk and benefit from the franchisor's experience in facing competition. Franchising provides a competitive advantage because franchisees can leverage the franchisor's proven experience and business strategies. This gives franchisees an edge in facing challenges from local and international competitors.

Conclusion

Franchising has proven to be one of the most successful business models across various sectors, from food and beverage to service and retail. The success of this model is inseparable from the franchisor's ability to provide consistent support and standardized operational systems to franchisees. Success in a franchise system depends heavily on the franchisor's ability to develop and maintain a strong brand and provide practical guidance to franchisees. This creates a solid foundation for franchisees to run their businesses efficiently and effectively. In the future, franchising has excellent growth potential, especially as awareness of sustainability and the need for innovation increases.

A flexible franchise business model can adapt to changing consumer preferences and dynamic market trends. The opportunity to enter new markets with a proven concept and adapt to local needs provides franchisees with a competitive advantage. Technological developments also pave the way for franchisees to explore innovative solutions in operations and marketing. Franchises that quickly adapt to new technologies and market trends will be able to capitalize on greater opportunities and maintain competitiveness in the industry. Innovation in customer experience and operational efficiency can be key to future franchise success. With strong support from franchisors and the ability to adapt to rapid change, franchising will not only continue to be an attractive business model for new entrepreneurs. However, it will also make a significant contribution to global economic growth. The opportunity to expand across various sectors, especially in sustainability- and technology-focused areas, makes franchising an increasingly relevant and promising option for the future.

Acknowledgements

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