



FRANCHISING AS A MODEL IN FAST FOOD INDUSTRY

PANCZEL, Z[oltan] T[ibor]

Abstract: *Franchising is underdeveloped with only a handful of active firms, lack of regulatory structure, lack of support from institutions, disinterested banks and little experience in the marketplace.*

This paper identifies the main global competitors in the food-service industry which launched franchises in Romania. It also transposes the franchise in the fast-food industry and, after a short history, shows the global evolution of the franchise and the criteria for its choice.

We based our paper on a statistical research that shows that the number of the Romanian franchises is extremely low.

Key words: *franchising, fast-food, statistics*

1. INTRODUCTION

To understand the theoretical and practical point of franchise system is a marketing contract and vertically in the first row is very important clarification and definition of a franchise system.

The doctrine of franchising was developed based on the theory that the concept of franchising is organizing chain stores whose beginnings are found in ancient China, when the year 200 before our era, founded a merchant of this project.

The documentary attestation of sec. fifth century before our era, chain stores and is expanding in Japan, Germany („Fugger") and England („Merchant Adventures").

Since the development of society "Great Atlantic Pacific Tea" chain store organization acquires a new dimension both in terms of number of stores belonging to a chain and in the number of chains.

The archive "The French Federation of Franchising" to store a document dating back centuries XIII in which some noble privileges accorded to persons of a particular territory apparently cities or areas were considered free of the contemporary era, this document is considered to be among the first franchising contracts, awarded by members of the federations. Later in the eighteenth century in England is the concept of "royalty" and concession agreements with mutual responsibilities. [4]

The increase in the scientific community interest for franchise business coincides with the increased intensity of franchise business model implementation over the last two decades, especially visible in the USA and Europe (Alon & McKee, 1999).

An International Franchise Association (IFA) research from 2004 shows that 45% of retail business in USA is conducted via franchising with over 18 million people employed directly or indirectly in over 80 different industries (IFA, 2004).

According to European Franchise Federation (EFF) data, there are over 5500 franchisors with over 266.000 franchise locations in Europe.

The rapid growth of the food-service sector in Romania is motivated by a cumulus of factors, such as economic evolution of the country, growth of the purchase power and tourism development

The numbers indicated in Euromonitor International report are encouraging, but emphasize the extremely low level of the investments in Romania.

The food-service industry in countries like Hungary, Poland or Czech Republic now exceed the average growth rate of this sector in Eastern Europe. That's because in those countries the sector development occurred much earlier than in our country.

In Romania, according to Euromonitor study, the year 2006 was a reference year for our country with substantial growth of this area, regarding the number of locations and the recorded transactions (www.foodandbar.ro).

2. LITERATURE REVIEW

Elango and Fried (Elango and Fried, 1997) review the franchising literature published before 1997 and distinguish three broad streams: franchising and society, the creation of the franchising relationship and the operation of a franchising system.

Combs et al. (Combs, 2004) review the empirical literature based on three key franchising constructs – franchise initiation, the subsequent propensity to franchise and franchise performance – from the perspectives of the resource scarcity theory and agency theory.

Factors having a positive impact on the franchisee's decision to franchise include industry risk, financial capital available at start-up, education level, salaried work experience (Williams, 1998), perceived benefits of self-employment, importance attached to the financial and business benefits of franchising and greater choice of sectors (Kaufmann, 1999). Prior experience as a business owner is found to have a negative impact on the decision to become a franchisee.

Finally, Stanworth and Curran (Stanworth, Curran, 1999) use a sociological approach for developing a theoretical model of franchising.

Weaven and Frazer (Frazer, 2007) presents the agency cost minimization, system-wide uniformity, brand value, system reward strategies that involve the granting of additional units, subsystem unit proximity and intra-system competition. University Press

3. A STUDY ABOUT FRANCHISING MODEL IN FOOD INDUSTRY

In this paper we wish to present a statistical study about franchising in food industry.

We compared some firms that are competitive in food industry.

McDonald's

McDonald's is one of the most notorious brand names in the world.

There isn't almost anyone in the civilized states who didn't enter such an establishment, for McDonald's is the most big

and famous fast-food chain in the world. It has over 30,000 units in 121 countries.

This extraordinary business began in 1948 when Mac and Dick McDonald opened a small restaurant in San Bernardino, California (S.U.A.).

It had nothing different from the competitors, but the McDonald brothers saw before anyone else the recipe for the success: simplifying the menu, lowering the prices and systematizing the procedures of food preparation in the kitchen. Thus, more customers could be served in shorter time.

The first step beyond the American border was made in 1967, when McDonald's opened the first restaurant in Canada. In April 1988, it entered the European market of the ex-soviet countries, opening establishments in Hungary and former Yugoslavia. In the former Soviet Union, the first restaurant of the McDonald's franchise was opened in Moscow, in 1990.

Then, in September 1991, the American company decides to occupy the market from Central and Eastern Europe by means of a regional headquarters in Wien.

From here was successfully coordinated the opening of new restaurants in the neighborhood countries: Czech Republic, Poland, Slovenia, Bulgaria, Latvia, Estonia, Romania and Slovakia.

Burger King

Burger King is a fast-food chain built after McDonald's model.

Practically, Burger King followed McDonald's line for a long time (Ries A., Trout J., 2001).

In the United States, Burger King offer higher standards of quality and hygiene but for a double price. In other countries the differences are not so big (www.foodbarmagazine.ro).

The first restaurant was opened by James W. McLamore and David Edgerton from Miami, Florida in 1954, named Insta Burger King. The first unit in Europe was opened in Madrid, Spain, in 1975. In China, the first Burger King was opened in 2005. Now there are over 12,000 Burger King restaurants, in 61 countries, with over 360,000 employees. The total number of its clients exceeds 15 million people (www.wikipedia.org.ro).

KFC

In the year of 1935, the governor Ruby Laffoon offered the honorific title of «Kentucky state colonel» to Harland Sanders, as a sign of recognition for its contribution at the regional cuisine development, due to the improvement of a recipe comprising 11 herbs and spices and to a unique technique for preparing chicken meat, which is used even today.

In 1964, the Colonel gave away his rights regarding the chicken preparing technique to an investors group which included John Y. Brown

Junior, who later became governor of Kentucky State, from 1980 till 1984. Colonel Sanders remained in the company as a spokesman.

Administered by the new owners, the Kentucky Fried Chicken public company developed so fast that in January 1969 was listed at the New York Stock Exchange bought KFC Corporation for 285 million U.S. dollars. In 1986 KFC was acquisitioned by PepsiCo Inc. for 840 million dollars. Today, along with another four brands, it forms Yum!Brands International, the greatest restaurant company in the world after the number of the units.

Pizza Hut

Pizza Hut history began to be written in 1958 in Kansas, U.S. Two brothers, Frank and Dan Carney took a friend's idea to open a pizza restaurant, not a very popular meal then in America.

They borrowed from their mother 600\$, rented a small space in the most circulated crossroad, bought second-hand equipment and opened a joint with only 25 places.

The space designed for displaying the name of the company was pretty small, only 9 letters fitted in. Since the building looked like a small hut, Pizza Hut was born. Now, it is the most successful pizza chain in the whole world, with over 12,000 locations in over 100 countries.

In Romania, Pizza Hut operates under a franchise contract through which the license is granted to a company called S.C. American Restaurant System S.A. (www.pizzahut.ro).

Fornetti

FORNETTI ROMÂNIA S.R.L. is a limited liability company with private capital, founded in 2001, as a partner for FORNETTI Kft., Hungary based.

In its 5 years of activity, Fornetti Romania climbed performance steps by increasing its production capacity along with product diversification, distribution area widening and improvement of the logistic, so that today Fornetti Romania occupies the first place in the Romanian franchise top.

Today it has over 300 shops which operate in the whole country.

In 2004 and 2005 Fornetti Romania was chosen as the most performing company from the world Fornetti system. Fornetti International (Fornetti kft) obtained second place, in 2005 in "European Top 500" of the respective category franchises).

Romania has the most rapid growing of the food-service sector from the Eastern Europe, upward trend which will be confirmed in the next years. (<http://www.fbb.ro/home/francize-internationale/top-francize-europene.htm>)

4. CONCLUSIONS AND RESULTS

This conclusion was drawn by the "Consumer food-service in Romania" study, published by Euromonitor International.

According to the above mentioned study, Romania is the Eastern European market which recorded the most consistent average annual growth of the food-service industry, regarding both sales value and number of locations opened between 1999 and 2010.

After we made this study we provide the development of franchising model in fast-food industry, as a way to grow the encreases and to have lower costs, to offer good stuff with low price.

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