

HOW TO STIMULATE A FRANCHISING BUSINESS

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Abstract: *Franchising is a reality in motion which will write more, being on time to find a theoretical foundation able to provide solutions for all aspects and economic instruments involved a commercial phenomenon.*

The solution, which has been in use for a long time in developed economies, is used more and more in European Union candidate countries.

The paper presents distinguishing factors in the use of franchising in the Romanian economy. Our research concentrates on one of the most developed areas of the country—the western region, where partnerships with foreign companies have been in place for a long time.

In this paper we made a study about how to stimulate a franchising business.

Key words: *franchising, business, stimulate*

1. INTRODUCTION

The franchise has come a long way, in time as well as in space. The franchising concept, meaning the protection of a privilege, appeared in the European Middle Ages, referring to collecting duties, organizing fairs, producing beverages etc. In the middle of the 19th century the franchise acquired the meaning of concession of an exclusive right to sell certain products. The development of the franchise on the European continent was replaced by the development of the concession, but franchising expanded in America, with the first modern network of commercial franchising organized in 1929 by General Motors.

At present, franchise networks function in the European space, too, but the majority of businesses based on the system are located in North America (one third of the franchising business worldwide takes place in the USA). Japan is a suitable area for the development of franchise networks. The most representative countries in Europe are France and Great Britain, the former playing a major part in defining the legal and economic frames of operation of the franchise networks.

In Romania, franchise networks are in an incipient stage, as the necessary regulations are recent and the development of such networks is conditioned by socio-economic conditions.

The franchise refers to applying a basic pedagogic principle, namely 'Teach me to manage on my own' to the practice of business. The following assertion may be derived from contemporary economic reality, beyond the theoretical definitions: 'The franchise means allowing others (the franchisees) to succeed as we (the franchisors) have'.

The European Commission gave one of the most comprising definitions of the franchise concept and of the franchising contract, in Regulation number 4087/88 of 30 November 1988. According to this regulation, the franchise is 'an assembly of rights of industrial or intellectual property, concerning brands, firms, industrial designs and models, copyright, know-how or patents meant to be exploited for selling products and performing services by the final users'.

According to community regulations, the franchise contract is 'the agreement by which the franchisor grants

another person called franchisee the right to exploit a franchise in exchange for a direct or indirect financial compensation.'

The Ethical Code issued by the European Franchising Federation defines the franchise as being 'a system for marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings: the franchisor and franchisees, whereby the franchisor grants its franchisees the right, and imposes the obligation to conduct a business in accordance with the franchisor's concept.' The International Franchise Association defines the franchise as: 'a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format or procedure owned by or controlled by the franchisor, and in which the franchisee has made or will make substantial capital investments in his business from his own resources.'

'The franchise network is made up of the franchisor and the franchisees that he has selected, all bearing the same branding, the symbol of the network's identity and reputation.

2. LITERATURE REVIEW

International franchising as an overall concept basically is the link between manufacturing—the making of goods or wares by manual Labour or by machinery on a large scale and retailing—the selling of products and services to consumers—is what makes the franchising world going.

The most debated topic in franchising research is the reason a firm chooses to franchise rather than expand through company-owned units. Research has focused on two competing theories resource scarcity and agency. Oxenfeldt and Kelly (Oxenfeldt, A. R. and Kelly, A. O., 1968) proposed a life cycle model of franchising, in which a young company with a limited supply of capital becomes a franchisor in order to use the franchisee's capital to expand.

Then as it acquires sufficient capital, the franchisor will later take over the larger units from franchisees. This view has become known as "resource scarcity" (Carney and Gedajlovic, 1991).

Caves and Murphy (Caves and Murphy, 1976) also observed a similar trend towards company ownership in restaurants, hotels, and motels.

Thompson (1992) found that company ownership is less likely to occur when units require high capital investment or when the franchisor is experiencing significant growth, thereby supporting the notion that resource constraints drive the decision towards franchising.

Under the new Regulation 1400/2002 (Tongue, A., 2003) dealers are free to sell their franchise to any other distributor satisfying the network's minimum standards as specified in the dealership contract. The importance of resources for firms in the early stages of growth is also evidenced by new franchisors charging a higher initial fee than older franchisors.

3. HOW TO STIMULATE FRANCHISING BUSINESS?

At the beginning we studied what are the conditions to stimulate the franchising business. We made some researches and we find that generally a company starting a franchise business for one of three reasons: lack of time, people or money. A first barrier to the expansion of a business is lack of capital, and franchising enables growth, expansion without risk of bankruptcy. As the franchisee without initial capital, it allows the franchisor to expand with minimum capital. Later as the franchisee is signing trade agreements such as raw materials, allows the franchisor expansion franchise substantially reducing risk.

Another barrier to expansion is finding competent people to run a business, a shop. Many entrepreneurs spend money and time to train a manager to see that after he left or was bought by a competitor. Franchise The franchisor is interested in the turnover of the franchisee's profit and, must not monitor unit costs.

Finally he has to open a unit and that take time: to find the location, to negotiate the rent, decorate it, to provide funding to hire people, to instruct, to buy equipment and stock power, and the result is that very few units can be opened in a short time. For companies with few employees, or too little time, a franchise is the fastest growth.

To expand a business through a franchise system, the a and market that it wants to expand. Only certain business ideas are suitable for development through franchising.

Therefore, before moving to business development, the developer must consider its franchising opportunities.

It is impossible to determine whether franchising a business concept without a significant amount of analysis. We identified a series of predictable criteria as:

1. Credibility - To sell franchises, a company must first be credible in the eyes of prospective franchisees. Credibility can be reflected in a number of ways: organization size, number of units, years of operation, unit layout prototype, pilot, advertising, brand recognition by consumers and power management, to show them the most important.

A future franchisee will be interested to see how big is the franchisor's organization, how many franchised units were opened, how many years running, as shown by the parent unit if the brand is known as the franchisor invests in advertising. Regarding reputation, it is possible to determine whether the franchisor websites and international franchise.

Reliability is ensured Fornetti business type achieved success on both domestic and world markets. Over 10 years experience on the Hungarian market, and seven years in Romania, contributed to business credibility. Fornetti in Hungary has over 2,200 franchised units and over 700 stores in Romania.

2. Differentiation - In addition to credibility, the franchise must be adequately differentiated from its competitors.

This can come only from a differentiation of products or services, a low cost of investment, a unique marketing strategy or marketing different targets. A future franchisee business must be pretty unique, and can be distinguished from competitors must possess competitive advantages, with some expertise to differentiate themselves from the players on the market.

3. Transferability of knowledge - francizabilitate next criterion is the ability to teach others the characteristics, operation of the system.

To franchise, a business must generally be able to fully educate potential franchisee in a relatively small period of time. Know-how offered by the franchisor must be easily transferable.

The franchisor provides the know-how in operating manuals. No matter the size of the manuals. Manuals and training should have the ability to teach a system. A franchise

must generally be able to fully educate a prospective franchisee in a relatively small period of time.

4. Income from investment - This is the true test of francizabilității. A franchised business must, course, be profitable. But more than that, a franchise needs to make enough profit after paying the franchise fee to the franchisor. Profitability is always relative. Investment must be measured to provide a significant number. Thus, investment in franchising can be measured relative to other comparable-risk investments are in competition with that franchise. A business that can not generate a profit of 15-20%, after deduction of royalties (usually 4-8%) will be very attractive to franchisees.

4. RESULTS OF RESEARCH

After we studied all these criterias we made a SWOT analysis and we found all the advadteges to promote a franchising business and to extand it.

We studied how to enrease efficiency in franchising business. This kind of business can function with a small number of personal.

We can see the evolution of the activity in Romanian firmas in the last years.

Years	2004	2005	2006	2007	2008
No. of units	215	254	301	429	520
No. of personnel	72	200	280	450	580
Average No. of personnel hired in sales activity	12	19	26	35	38

Tab. 1. The evolution of units and personal in franchising business

We present a table that shows how Fornetti business type achieved success on both domestic and world markets, between 2002 and 2010.

	2002	2007	2008	2009	2010
JANUARY		516	683	789	947
FEBRUARY		518	688	794	855
MARCH		522	702	795	863
APRIL		534	709	799	872
MAY	180	552	720	804	881
JUNE	179	572	731	811	
JULY	180	578	740	823	
AUGUST	183	597	747	829	
SEPTEMBER	181	613	753	831	
OCTOBER	183	630	766	839	
NOVEMBER	202	655	775	842	
DECEMBER	215	675	786	845	
AVERAGE	188	580	691	784	

Tab. 2. Situation of opened shops in 2002 and between 2007 and 2010

For the future we wish to stimulate the small entrepreneurs to try to be a franchisor, and to extand this kind of business.

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