

Franchising and Leasing as a Support for the Growth of Small Businesses

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Abstract

One major reason why small businesses owners choose to become franchisees are that they become able to operate as if they were much larger enterprises. When analyzing the franchise of various companies, one can easily become confused with all the terms used to discuss the multitude of fees and expenses. Franchise fees, security fees, base rent fees, percent rent fees, service fees and royalty, not to mention the various purchase cost options, all come into play. Leasing presents very powerful source of financing, because it presents good solutions for providing basic funds. Leasing is very significant for small and medium companies, and also for new companies which they don't have good credit capabilities for funding basic funds.

Key words

Franchise, leasing, sources, fees, expenses, small business.

1. Introduction

In modern trade, many of the small businesses face problems regarding the acquisition of proper financing sources. Although they have multiple financing sources for their current work and functioning, they have to be well informed on the prices and conditions some of the sources offer in order to make the most rational decisions which would consequently optimize their capital structure.

However, in cases where the businesses themselves can fully or partially cover their financing needs, they have a considerable advantage and possibility to reach a certain growth with less expenses and risks.

Nowadays the most attractive financing sources for small companies are the franchise and leasing.

Franchising is the most popular type of starting a business, as it offers a greater security and it deals with standardization of goods and services as a basic business concept. When one buys a franchise, they become a part of a bigger organization and acquires all the advantages this position brings. [1]

One should thoroughly consider all the conditions when buying a franchise, because although it has many advantages, it has been unfortunate for a number of people.

Regardless of their development, almost in every country nowadays, *leasing* has been put forward as an alternative financing source, primarily because it annuls the problems while borrowing financing means and the risk that may occur while paying back. Often, although the legal parties have financing means of their own, they decide to use leasing as alternative

means. In such cases the managerial board has decided that it is not necessary to use real available finances for supplies if they can use leasing instead. At this point the legal party has several options: (1) buy the supplies needed on leasing, (2) to borrow money and buy the needed supplies, or (3) to buy the supplies using its own liquid finances.

2. Growing a business with the help of a franchise

Franchise has long been recognized as an attractive means for stimulating business growth. The influence it has on small businesses is relatively less known and studied, [2] as many of the small businesses face a great number of challenges in the process of transforming their business into a successful franchising operation.

There are many reasons why small businesses decide to take this step. By doing that they have the best option to start their business as many of their tasks have already been done.

Franchising offers a fast potential growth and geographical expansion, especially in small businesses with relatively small capital investments.

Furthermore, franchising companies have a bigger control of their brands and work systems, and they also enjoy the thought knowing that every segment of their business is managed by professionals motivated enough to maximize their sales and profit.

Another reason why people should start their businesses by franchising is the ability to manage their own work systems, that is one part of the managerial system of the famous brand would belong to their company.[3]

Although franchising is a powerful model proved to help individuals and companies in making their dreams come true, it is still not the growth model that could be applied by everyone.

Before deciding to take this step, one should first understand how franchising works and what a step like that would mean for the company, because many people know about franchising merely from a customer's point of view, but are not well informed as to how it functions from an owner's point of view.

So, you have decided to buy a franchise. You are now facing the hardest part- choosing the winner. That would need a few serious surveys on how to choose the right franchiser. Many franchising disasters could have been avoided if more time on such surveys had been spend.

Buying a franchise is a process which begins by comparing two competitive franchisers, having in mind the conditions they offer on starting the business.

Although the franchise is well-known business model, a few things should be considered when buying it:

- *How much capital is necessary?* The price of the franchise can vary considerably, and because of this one should be certain whether this number includes the rest of the expenses, as in most of the cases, the initial payment includes only the exclusive right to trade with the particular brand, not covering the additional expenses.
- *Which are the available financing methods?* Many banks offer attractive loans to finance a franchise, and they even cover 70% of the expenses, thus making the process easier.[4] However one should be certain that one has all the methods of financing available, as any wrong decision could end fatally.
- *Is there a demand?* Is there a sufficient demand for the franchised goods and services to keep you going on with the business? To answer this question one should consider the competition, as well as to have in mind the quality of their products comparing it to the one of the franchise you are interested in.
- *What's the benefit of a certain franchise?* A little survey on the Internet could inform you on the reputation and the business record of the franchise. It could also give you some information on whether there are any present or whether there were any past legal disputes and processes against the brand you are interested in.

- Which legal documents are necessary? Before signing the contract of franchise, be sure that you have checked that the contract is legally covered by an attorney experienced in franchising. Also, you should not feel pressured when signing it. If however that is the case, you should choose not to sign it.
- *Does the franchiser have a good marketing strategy?* One should try and find out how the franchiser finds existing and new markets. Also, it is important to know whether as a person buying that franchise you would be given certain training typical for your industry and business. What kind of support does the franchiser offer besides the initial training? A good franchiser will not leave you after the first orientation week. They would be interested in your progress and would try to help you with the development of your business plan.
- *What are their choice criteria?* Are there any criteria on choosing the franchisee and how strict they really are? What are the conditions on acquiring education/ training and whether there is an ideal franchisee?
- *How high a success should be expected?* In other words, how many of the franchisees are still in the business and satisfied after the first two years of the contract?
- *How are conflicts solved?* If the procedures and the politics of work lead to conflicts, which leaders and procedures of mediation should be applied by the franchisee, and do these situations really exist? In addition, are original ideas and innovations taken in considerations when solving the conflicts?

3.Franchising worldwide and the Republic of Macedonia

According to the research conducted on the application of franchising in the USA, China, Europe and in other countries, some conclusions could be made. The USA are still the leaders in the franchising business, covering 900,000.

In the first place in the USA is the food industry (fast food restaurants and food delivery), second are the service providers for the businesses (printing, administrative services and consultancy services), and on the third place are the personal services, which are of great importance for the American people and these include the health system, education, and entertainment.[5]

China takes the second place with more than 400,000franchise businesses, and although still not completely developed in this respect, openhandedly accepts the new tendencies.

Unlike the USA, the franchise as a business system is mainly present in retailing, in catering and servicing, while least common for business services such as financing, accounting, marketing etc.

In the third place, according to the surveys conducted so far is Europe where franchise as a business model has been accepted, but not equally developed in every country of the continent, which can be seen from the number not exceeding 100,000. Actually there are only 10 to 15 thousand of franchised businesses. The best conditions for franchise development can be found in Germany, France, Italy and the UK.

Franchising as a business model has been becoming more popular in the developing countries and economies. The benefits of it were first seen in Hungary where 400 franchising chains function at the moment, and then Poland, Slovenia, Croatia with 120 franchises, and the Czech Republic with 55.

On the other hand when it comes to our country, the Republic of Macedonia, the franchise is not developed, although there are certain brands on the market. The Macedonian Franchise Association, which has been active for several years, has been the link between the franchisors and the recipients of the franchised goods. The number of franchises in the country is hardly 10, concentrated in Skopje.

The answer to the question why is very simple and it lies in the bad economic situation, so the citizens very rarely decide to purchase a franchise of a brand.

Also, the little interest in our country is due to the inability to provide the world brands with the adequate space, or the one available is just too expensive.[6]

There are huge possibilities to bring famous brands in Macedonia too, but the real problem is that we do not have any products that we could place in foreign markets as a franchise.

There are franchised goods in Macedonia too, but there is not a domestic franchised product. We do not have any Macedonian franchises, not because the products are not of a good quality, but because of our inability to create a brand, a concept that we could sell to somebody.

Why can't we create a brand?

One of the reasons would be that Macedonian companies do not employ young and quality people who would work on such a development. Older managers are not open to the new ideas of younger colleagues and that is why our country has difficulties creating brands, and we should have in mind that brands are usually offered franchise for.

Franchise in other words is selling a certain concept. There is not a legal or psychological obstacle. The main reason is that we have not reached that stage as a society. Our companies have not reached that stage in their management, and they do not see the evident benefits of franchising in order to apply it in practice.[7]

Franchising in Macedonia can be enhanced by putting forward projects financed by the government and international funds, business associations, as well as by project activities to connect universities and the business community in the field of education. Furthermore, the results from the scientific studies conducted in the field should be used in practice, and quality work on the subject should be published. Also, another way this could be done is by connecting different franchising associations in the well known regional and international organizations and franchising organizations.

The application of franchise in the world is presented in the following chart.

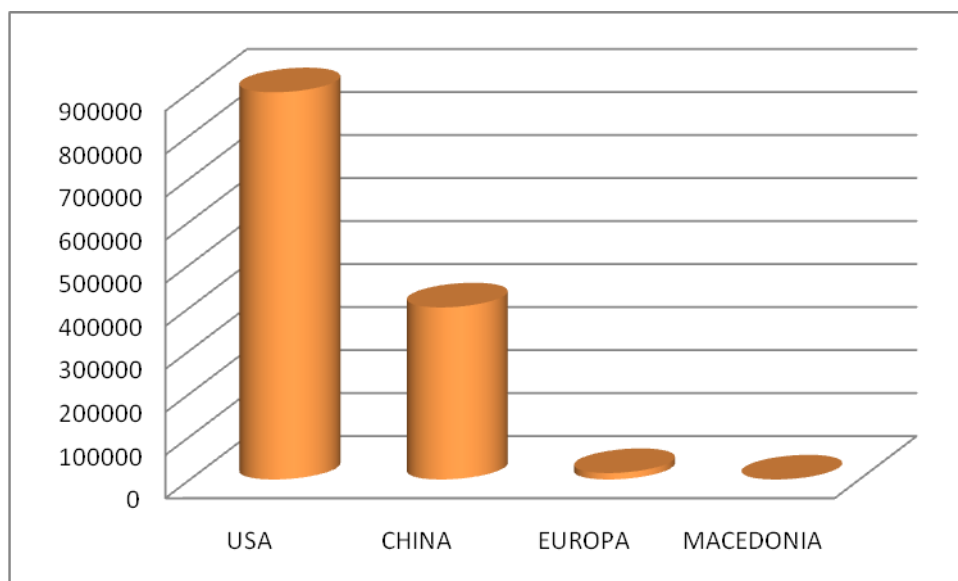


Figure 1. Franchising worldwide and the Republic of Macedonia

4. Leasing in business

Leasing is one of the most dynamic industries in the world which provides economic growth, increases the number of work places and improves the tax incomes.

Leasing as financing source for small businesses takes up a big percentage, and besides the bank loans and credit lines, it is the third most important financing source of small businesses.[8]

Leasing stimulates the growth of small businesses, especially in developing economies, where these businesses are the pillars of the general economic situation. The application of leasing contracts influences:[9]

- the modernization of industry;
- the production and sales;
- the know-how technology;
- the investments, and
- the unemployment rate.

Its financial function is an opportunity frequently used by small businesses, which are not able to self-finance and take a loan from a third party and those which are able to do so still choose the leasing in order to direct their liquid means in other investments.[10] Having this in mind, the application of leasing with small existing and newly founded companies, as well as by those having their own financial means is a feature that makes leasing very available financing source for small businesses.

Leasing as a financing system, especially when used for equipment, is of a great importance in stimulating the small businesses in a way that by the development of the leasing system itself the small and medium businesses are given the opportunity to finance the activities and equipment of interest for their business, as it provides 100% of the means needed for the equipment without asking for any additional guarantees as the equipment itself is a guarantee enough, which is not the case with bank loans.

It is because of these reasons that leasing is a great instrument for small companies which have the potential for fast growth, as well as for the start-up businesses.

Furthermore, globally, there are multiple associations and organizations, Internet magazines, counseling companies in the field of leasing which by their activities, contribute towards the improvement of leasing and this field. Their influence is important in underdeveloped countries where the economic growth is low, and leasing financing is marginal or nonexistent.

5. Leasing market in Europe

Leasing market in Europe is in constant increase, indicated by the latest data provided by Leaseeurope.

According to the latest data supplied by Leaseeurope in 2013, leasing market in Europe reached value of 251.9 milliard Euros.[11]

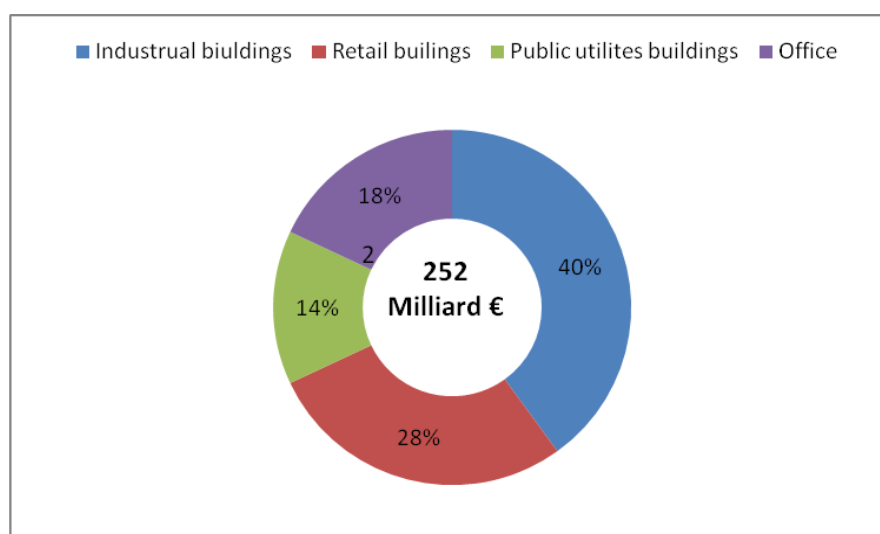


Figure 2. Leasing market in Europe in 2013 - by type of asset

In accordance with data's value on leasing market in Europe which is nearly 252 milliard €, with the biggest participation are transport resources 45%, than equipment cover 32%, commercial vehicle 18%, and with the smallest participation in realty are property cover 5%. United Kingdom had the biggest leasing market in 2013, and its value was 48.5 milliard €, than Germany with 46,9 milliard € and France 37,5 milliard €.

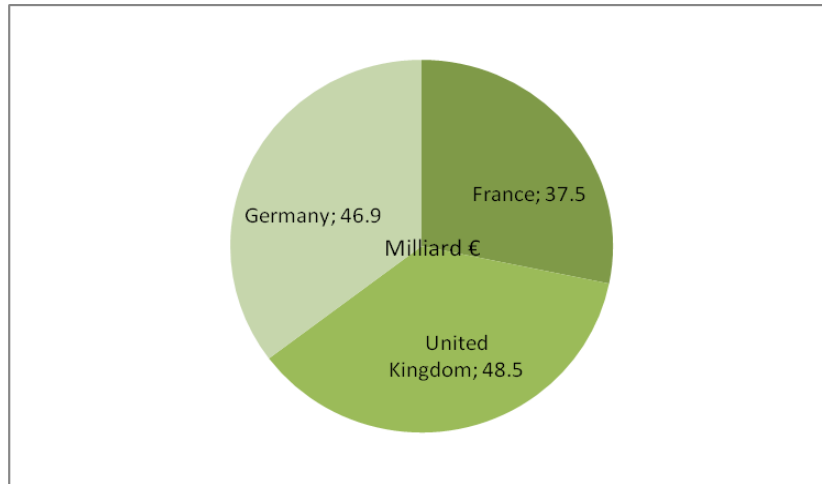


Figure 3. The three best countries in the market of leasing in Europe

In 2013 leasing market- equipment market (including vehicle) exposed 238 milliard€, therefore it increased for 1.9% with reference to last year.[12]

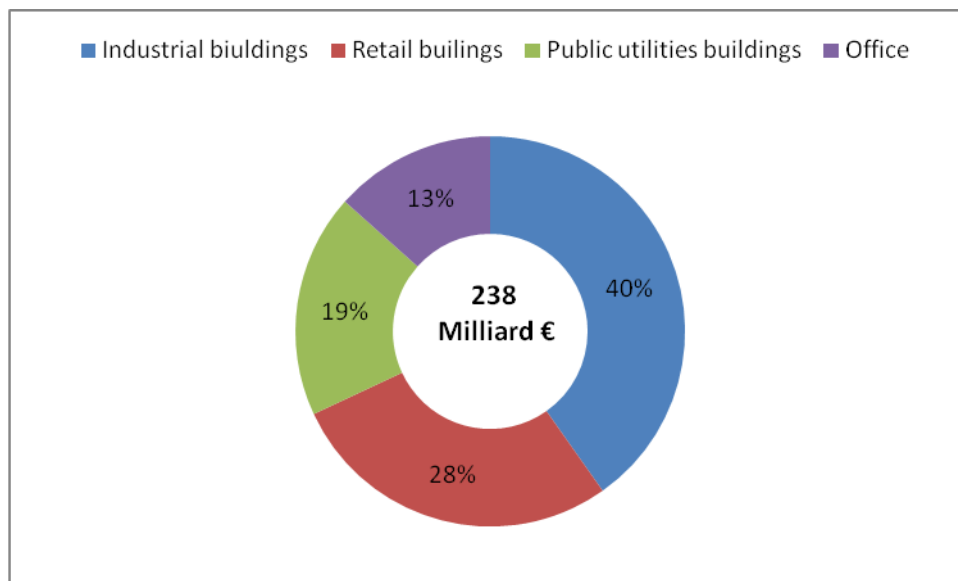


Figure 4. Equipment leasing market of Europe 2013

In accordance with the newest data in equipment leasing market, passengers cars takes the biggest part with 47 %, after them are commercial vehicle cover 19%, industrial equipment 17%, computers 7%, and others resources 10% in total value in the market. Throughout 2013, leasing property market in Europe, slump and total value came to 14 milliard €.

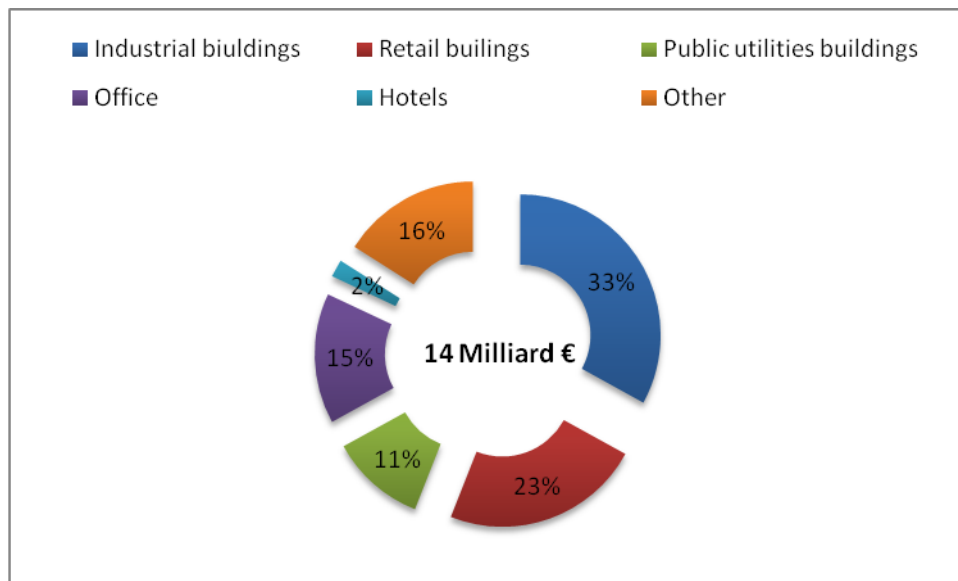


Figure 5. Market leasing Real Estate Europe 2013

Accordingly value's data on leasing property trade with the biggest participation in its value - 14 milliard € has the industrial buildings with 33%, retailing 23%, other buildings cover 16%, office buildings cover 15%, public utilities buildings cover 11% and the smallest part in leasing property market in Europe has the hotels which covers 2%

6. Conclusion

The business world is changing and companies find ways to create value both for themselves and the communities they work in. Some of those ways are franchise and leasing. Purchasing a franchise is a popular option to start a business. Why not create and start a private independent business instead of listening somebody else's advice and follow their rules on how to do business? The answer is simple- every business needs at least three years to strengthen its position on the market, a period in which the business itself has to bear all the risks with its positioning on the market, that is, placing its product or service, maintaining its quality, advertising, finding suppliers, distributors, etc, and not every business could survive this. The statistics show that even in times of crisis and hardships, the franchise industry has always been successful. Almost 80% of the new companies go bankrupt, while 96% of the franchises survive. That is because they already work with a developed business concept. Franchising means trusting a developed system in order to 'copy' the success of the original business.

We often get the question why the leasing is so popular.

Today it is a trillion-dollar industry, and the leasing companies like Clark Equipment, GECapital and US Leasing International provide enormous financing sources. The leasing arrangements as a financing source for international business are important not only for the development of individual businesses, but also for the development of national economies, primarily because of the fact that they provide access to the most modern technology.

On the other hand for the underdeveloped countries and developing countries leasing helps to increase the production, the competitiveness, to lower unemployment, increase sales, that is to put the most modern and contemporary technology in function of industrial growth and development. The ability to use leasing largely depend on the user's capability to apply it productively, which is by using it to attain a certain gain. The fact is that there are conditions to develop leasing in our country, but still the direction in which this situation will develop will depend on the Ministry of Finance and its will to promote leasing arrangements.

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