

THE HIGH -IMPACT OF FRANCHISING ON ECONOMIC AFFAIRS IN SOME OF THE EU MEMBERS

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International companies prefer the franchise as it is very difficult to manage a business from distance and create a network of locations at low costs. Once the franchise is offered, the company gets away with the concern that contracting a location, with the clients' stress and other operational expenses, attracting his franchisees' capitals, increasing investments and profit. These advantages would be economizing advertising budgets, partly sustained by the franchised or by the franchisees' local experience that is also important and even defining.

*Thus, the franchise may give the name offered by the "tendencies' guru", John Naisbitt: **"the most successful marketing concept ever created"**.*

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Globalization has become an implacable objective process that develops at great speed, and comprises the quasi-totality of the world states, an irreversible reality, so that any country that prepares its future must prepare itself to face it. The economic dimension of globalization has undoubtedly a great importance, it is a cause and a matrix force of the globalization processes in all fields of activity. The enormous growth of integrated commerce at transnational level, the competition at local and regional level, the end of national economies are only a few examples regarding the economic dimension of globalization.

The link of this economic dimension of the globalization process is represented by the **franchising operations** that, in many cases, are an important component of the internationalization strategy of companies.

Being 150 years old, this modality of business comprised the entire planet.

In short, franchising represents putting into practice the fundamental pedagogical principle: **"Teach me how to become successful by myself."**

The French Association of Normalization names the franchise "a method of collaboration between a franchiser company and one or more beneficiary companies, on the other hand. The franchise involves the ownership of one or more signs of attracting clientele as well as owning the know-how that could be transmitted to the beneficiary companies."

Businesses for which franchises is said to work best have the following characteristics:

- Businesses with a good track record of profitability.
- Businesses built around a unique or unusual concept.
- Businesses with broad geographic appeal.
- Businesses which are relatively easy to operate.
- Businesses which are relatively inexpensive to operate.
- Businesses which are easily duplicated.

Today, a franchise is a way to make a business with the most rapid growth in the world. More than 600,000 franchise businesses are spread on the American continent, generating sales of billions of dollars. More than 40% of retail sales of products and services in the USA are made in a franchised system. At every 12 minutes a new franchise starts somewhere in the USA. We may undoubtedly say that the franchise is the success story of this decade.¹¹⁸

Franchise Europe studied a list of more than 5,000 franchises operating in Europe with a turnover estimated at 200 billion US dollars. These numbers show that the European potential is much higher. At European level, Spain is the country with the largest number of franchises (13,000 units), followed by Great Britain with 10,000 units, and on the third position is Germany with 6,000 franchise units.

Today, in the world, more than 4,900 business systems generated into ten franchises per system, at least. At the level of the most developed countries, the franchise generates more than 40% of the total turnover.

We may distinguish some common elements such as the fact that the franchising system implies the existence of a physical or juridical person, called franchiser, who set up a certain fabrication process or method of making a business with goods or services; the franchiser starts looking for some independent, eager and capable entrepreneurs willing to promote his processes or method, which gives them the right and the license necessary for producing and selling those goods or services.

With a population of 460 million people, and a total gross domestic product of U.S. \$12 trillion and average per capita purchasing power of almost U.S. \$28,100 (IMF estimates), the European market offers a significant opportunity to franchise companies from other global regions.

Franchising in France

France has a long history in franchising, which dates back to the 1930s when a knitting company started to “franchise” its business model. It was around the 1970s that franchising clearly started to grow and to appear in all sectors of the economy, parallel to the development pattern in the United States.

According to the European Franchise Federation, France has become the largest franchising market in Europe with total sales of U.S. \$51.6 billion and more than 929 franchisors. This dynamic market continues to experience steady growth holding an average of 10 percent growth annually since 2000. In addition, French franchises have also experienced strong growth outside of their national territory with more than 230 brands present in international markets.

The French market is mature and highly-competitive, but offers many opportunities for new concepts, business models and commodities that fit the market’s needs and conditions.

Fitting a market need does not connote plopping a profitable product or service in a market where it doesn’t exist. Though a business may flourish in the United States, or in the United Kingdom, economic and cultural factors may limit its success in continental Europe, especially in France. Fitting market conditions is just as important as fitting market needs. Even if there is a need, if market conditions are not favorable to your business it will be difficult to franchise. A successful franchisor has a sound fruitful concept and is ready to adjust the business model and or contract conditions as appropriate to mesh with French market environment and regulations. Prime location for retail concepts is essential and therefore the real estate element becomes a major issue for the investor or the local business partner. When taking over a retail location, companies or individuals are often subject to a substantial start-up fee or “fonds de commerce.” Contract conditions with local potential partners need to be thoughtfully planned out to appropriate for such unique costs. One should take the proper steps in researching the extra expenses that may compromise the typical business plan and presupposed financing. In doing so,

the franchise firm also creates a partnership that is mutually beneficial which maximizes the chances of success in the long run and assures a profitable royalty scheme.

The French franchising market is challenging. Unlike Mexico and Canada that provide geographically and culturally-friendly franchise expansion opportunities, even well-established brands names will probably not enjoy high-brand recognition in France. The French Franchise Federation has been a pre-eminent player in the sector for many years and was the first federation in Europe to develop a code of ethics that later became adopted by the European Franchise Federation. The federation maintains a list of service providers, consultants and experts in different fields devoted to support those that wish to franchise. On the upside, if a franchisor follows the right steps, the French franchise market can also be rewarding and profitable. Prime examples are McDonald's and Century 21 that have become ubiquitous in their sectors and respectively claim France as one of their most or the most profitable market in Europe.

The United States has always been perceived as a source of innovative concepts and efficient business methodologies. With more than 30 U.S. franchises, America is the first country of foreign origin for franchises that have been established in France. The majority of those are in services, the industry that is still the most promising. Until recently, the French environment was not the most favorable to private businesses that provide personal services. These services include childcare, elderly assistance, gardening, janitorial, tutoring, personal assistance at home for the disabled and the sick. Personal services were considered too expensive and not always culturally-accepted, limiting their development in franchising. Traditionally the cost of labor would make it challenging for this type of service to be economically-viable. In addition, for certain cases, the French have also been accustomed to having the government take on some responsibilities rather than a private company.

However, in May 2005 for example, the French government passed a new law making it easier for the development of personal-service jobs. The main objectives of the new law are to make it more attractive and economical for clients to use personal-service providers, simplify access to the industry and implement a standard payment method (Universal Service Checks). France has invested greatly to acknowledge and professionalize the personal-service sector. Given this new legal environment, U.S. franchises providing personal services may find new opportunities in the French market. They can take advantage of tax reductions, simplified registration processes and reduced entry barriers. Since the implementation of the Universal Service Checks last January, French companies including franchises in this industry have been proliferating. According to industry sources, the market has grown 8 percent in just a few months, with certain enterprises reporting a doubling of their clientele.

Many foreign businesses have chosen France as a gateway to Europe. For example, the Paris region ranked first in Europe in welcoming international businesses, according to a Ernst & Young-European Investment Monitor study. Given the maturity of the French franchising market, its convenient location in Europe, and the truly international local show, the franchise companies should consider France as an ideal European springboard. Overall, the economic, commercial, legal and financial conditions for franchising in France are quite promising.

Franchising in United Kingdom

From many points of view the United Kingdom presents an excellent first market in which to establish a successful franchised operation and from which to springboard into continental Europe. Many major multinational franchisors, such as McDonald's, YUM! Brands and Holiday Inn-InterContinental Hotels Group have established small European regional offices here from which to attack and subsequently support the growth of their other European country markets.

There are many plus points, including: one of the largest local markets (60 million in a densely populated area, twice as densely populated as France and nine times the United States); second highest GDP (after Germany which has a population of 82 million) and personal disposable

income 20 percent above the European average; 15 cities with populations in excess of 250,000; an easy cultural fit for “English language” home-country franchise systems and teams; a large pool of potential country franchisees with which the company can easily communicate in its own language; leading banks that understand and actively support the substantial franchising sector: in excess of 750 franchise systems; and a national franchise association which is very active in the promotion of franchising and is one of the leading franchise associations in Europe. United Kingdom represents a flexible market in which new, overseas concepts can readily establish themselves, either with a small country-owned start-up to prove a concept in European beachhead operations, or by finding a country master franchisee, area developer or even, (but generally only on a limited scale) direct franchisees.

Another very important point to remember about the U.K. market is that despite its large population, it is geographically relatively small and it has proved quite possible for a U.K. franchise system to develop the entire market from its own office, perhaps occasionally with remote field staff, supporting the entire national network.

The British Franchise Association, which views itself very much as the guardian of ethical franchising in the United Kingdom, has strict membership criteria and will require all members of such networks of regional master franchisees to satisfy its criteria so that if one does not qualify, none can be members individually. In addition, and this is a fairly new development which is being hotly-debated currently, the BFA seems to be taking the position that it will require an overseas franchise firm to have proved its concept works in the United Kingdom before permitting it to recruit individual franchisees here.

Perhaps one of the most unexpected benefits of franchising in the United Kingdom in the first wave of European expansion is the relatively benign legal environment. A growing number of continental European markets have franchise-specific laws, requiring amongst other things formal pre-contract disclosure. There are laws which can penalize misrepresentations in the sale of franchises, but do not present problems for properly-structured franchise companies that are approaching marketing to the United Kingdom sensibly and that take sound local legal advice. Adapting the home country’s franchise agreement (or master franchise agreement) for use in the United Kingdom is generally a relatively straightforward matter and the U.K.’s legal system in general makes doing business in most sectors straightforward with more care needed in a limited number of regulated sectors such as the financial services and health sectors. Generally a limited number of changes are required to ensure enforceability of key contractual provisions in the United Kingdom jurisdiction. Currently the U.K.’s legal regime (strictly speaking English and Scottish law are separate, though with relatively few differences material to franchising) again unlike a number of contractual jurisdictions—will not imply an undertaking into the ongoing relationship to behave in good faith and reasonably.

Franchising has proved very successful across the usual commercial sectors in the United Kingdom, and of course as in every sophisticated economy, there is always a thirst for new concepts and niche services. Perhaps one of the few negatives is the high cost of real estate: retail concepts in particular should carefully investigate this aspect with good local commercial brokers before deciding on their real estate strategy and where to locate their first, crucial outlets.

Franchising in some of the East European Countries

Thus, in more than half of the franchised chains present in Bulgaria joined in the last five or six years. Generally, foreign franchisers own their units in Bulgaria and do not give in the franchise rights to their franchisees. Since the Bulgarian market has a small size as compared to that of other markets, the franchisers give in the master franchise for the entire region (Balkan or East Europe), to the companies in West Europe. Similarly, in Hungary, at present, there are approximately 400 franchise businesses, half of them of foreign origin. McDonald’s can be considered the franchisers’ leader, not only in Hungary, but in all Central and Eastern Europe,

with a successful trans-national development strategy. Other successful franchises are Pizza Hut, KFC, and Burger King.

In Poland there were more than 200 networks, including 12,000 franchised units and more than 13,000 employees. The most franchised systems originate in the European Union (61.9 %), and the largest networks in the USA, France and Germany. American franchises are well-known in the whole world and they came first in Poland and popularized the concept. The first franchiser in Poland was McDonald's, in 1992, and now the most spread fast food chain (207 restaurants, 166 are in the property of McDonald's, and 41 of them are sub-franchised). (Business Poland, 2006)

In 1994 and 1996 in Romania there was an economic growth and various international companies entered the Romanian market. The first classical franchise was McDonald's in 1995. This franchise recorded results that could be compared to the worldwide ones. Presently, a franchise appears in more than 80 activity fields, but we cannot talk about a universally applicable form as a way of making business. A study of International Franchise Association indicates that 18% of the franchise systems are in fast food, and 11% in non-specialized distribution.

Just like in many other countries in Central and Eastern Europe, the most and the widest spread franchises here are the ones in distribution. The next ones are the companies providing services (financial, hotel, advertising); there is a small number of the ones in production as a result of the large costs when entering the market (distribution – fashion, jewels, electrical appliances, electronic ones, oil products - 87 networks; financial, hotel, advertising, human resources - 78 networks; industry - furs, refreshments, construction materials, - 6 networks). (ARFR)

Romania is represented by a number of 460 **franchise networks**, the brands originating from **21 countries**; the turnover at the end of **2007** was **1,500,000,000 euro**, unequally divided on activity sectors; an interesting fact was that the industry networks have only 3.5% of the total networks, and they contribute with 43.6% at the turnover obtained by the franchised system.

Repartition of the turnover on sectors

SECTOR	TURNOVER (EURO)	%
Distribution	146,000,000	20
Services of which:	266,000,000	36.4
* financial, public, human resources, maintenance	206,000,000	28.2
*fast food, food products	32,000,000	4.4
*hotel industry	28,000,000	3.8
Industry	318,000,000	43.6

The comparative evaluation of franchise networks importance in the total of networks and turnover, according to the activity field shapes an idea of activity efficiency in this system. The distribution networks are the most numerous, the first explanation being that entrance barriers (seen through their costs) are insignificant.

Activity field	No of networks %	CA (EURO)
Distribution	50,9	20
Services	45,6	36,4
Industry	3,5	43,6
TOTAL	100	100

The development of these franchise networks does not require large investments and their contribution to the added value is not spectacular. These businesses serve more to the entrepreneurs' particular interests and less to macroeconomic objectives of Romania.

The Department of Commercial Studies of the USA reports that less than 5% of franchised businesses ceased their activity or failed any year after 1974. Statistics are very impressive when

compared to the estimations of small businesses that vary from 30% to 65% depending on the source.

In conclusion, franchising could and should be a successful adventure both to the franchisers and to the franchisees, to all those led by ethics, passion, vision and innovation, to all those who want to get a franchise or develop the franchise network.

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