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Evolution and significance of franchising operations nationally and internationally

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Abstract

The contents of this paper I will try to address all those interested in studying the system of franchising, both theoreticians and practitioners in this field to contribute to the progress of this system in our country.

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.

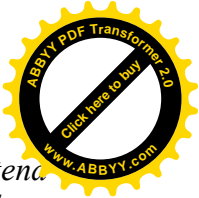
Novelty apparent basis of:

- importance and the complexity and variety of system franchise (franchise), but at the same time very interesting and appropriate, the pace with this growing vertical marketing system and contract in the world economy;*
- that specialized in Romanian literature is not enough work to deal with the franchise system as a whole broad issue of the whole system;*
- theoretical and practical knowledge in this area are generally poor in our country, for development imposed by the very nature deeply International franchise system;*
- deeply democratic franchise system in terms of organization, where relations between franchisors and franchisees are partnership firms having independent franchisees legal and financial part to ensure a more cooperative advantage superior to other systems in the world economy;*
- by expanding the franchise system existence and create new jobs, promoting and strengthening the middle class society of a country;*
- universal economic reality created the concept of globalization to achieve world number one organizational system. One of the major systems of vertical organization and service area is considered disposal and franchise system, widely practiced in contemporary economy;*
- this system can join with small steps between the pillars of economic and financial stability of the new millennium.*

The success of franchises is most dependent on one man: the franchisee, and to be successful is not enough that it will have the necessary knowledge to purchase a license and to build a franchise unit, to arrange and start businesses in within this unit. Franchisee must be dedicated to his work, it must have the desire and willingness to work hard and ability to remain motivated, ability to do business.

JEL classification: D40, D80, D81.

Keywords: franchising, business, evolution, strategy



"If we know where we are and something about how I got here, I can see why we tend to and that the results that our way is not acceptable to make appropriate changes"- Abraham Lincoln.

Walking the streets of our city in the world recognize any business format franchise in every mall, every shopping mall, and generally any busy street in any commercial area, "Fornetti, Pizza Hut, Mc. Donald's, Coca-Cola, Hugo Boss, Germany, etc. "are familiar presence. Also, in many areas where homes were built, franchisees are present and still are room for more. [1]

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. Each franchise organization, whether European or not, every country that has new franchise and every theoretician of this phenomenon gives a specific definition of the franchise, but everyone agrees that refers to a franchise business trade relationship between two parties called franchisor respectively franchisee. [2]

After numerous studies in this area concluded that there is a history, "the official franchise, but most analysts believe that this is not an invention of the twentieth century, placing first franchise relations in the Middle Ages, when kings, lords and sovereigns gave different privileges, different land use rights for hunting or for the organization of fairs and fairs on their lands, the protection of freedoms of their subjects. Later this privilege was extended to commercial activities, banking relationships, transport, following the development of trade. [3]

The doctrine 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. There is also a category of franchise relations between the rickshaw drivers and the authorities gave them the right to use certain roads and certain roads.

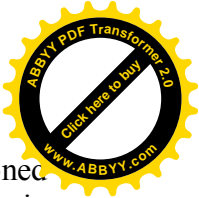
The documentary attestation of sec. fifth century before our era, chain stores and is expanding **in Japan, Germany („Fugger") and England („Merchant Adventures")**.

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]

Etymologically, the word "franchise" comes from the Old French "Francis" which stands for empowerment of a peasant or serf to carry out autonomous profit-making activity. In the same period in medieval France was also used the term "franchise" (free, freedom, privilege). This privilege or right was granted to various nobles and merchants and extends to the kings who gave rights to all sorts of commercial activities such as building roads and brewery. This sense of the word "franchise" has evolved in the context of the economic history of century XIX and XX in a fast pace, almost unprecedented, and reaching to determine the current economic system of organization which he defines as global economic force. [5]

With this significance are employed in Germany and Switzerland words "friburg" and "Freiburg" - which means "free city" or "French cities. In feudal England, the nobles gave sovereigns areas that they had to exploit, nobles protecting properties of these kings with armies that formed, also could impose different taxes noble peasants, some of these charges request their king. This system existed in England until 1562, when it was declared illegal by the Council of Trent.



Colonization of the New World discovered in November territories may be mentioned that there was the franchise relationships between leaders and the various colonial powers in mining companies receiving possessions. Franchise, as was used by some leaders to expand and exercise control in the new colonies.

An example is the Dutch company "East Indies" which was founded in 1602 to run the activities of trade between the Cape of Good Hope and the Straits of Magellan. The company was capitalized through the sale of shares amounting to 6.5 million guilders, acting as a sovereign power, conquered by the Portuguese territories in Asia and has established the "headquarters" in Jakarta in 1619, starting its operations on this basis, the company created a monopoly of trade in spices from Japan and fought with the British who wanted to break that monopoly. [6]

English company "London Company" is another example of business in the franchising system. She has a contract with the British Crown which has received rights for exploitation and colonization of Virginia in North America. The company hired Captain Christopher Newport, who founded Jamestown. Thus 347 settlers were massacred in 1622 by Indians of the Powhatan Confederation, which led the British Crown to cancel the contract with the London Company in 1624 and turned over to the Virginia colony of England. [7]

According to Oxford Advanced Learner's Dictionary, in England, the word franchise had its roots in the Middle Ages the verb "to enfranchise" - means is being released from slavery, legal obligations, depending, in German the word franchise is reflected in the term "franchisage" in Spanish "franquicia" which have similar meanings (tax exemption, the right to vote, shelter, concession, license, privilege, immunity).

Also, in recent decades has become the everyday language and meaning of "technical progress of activities of commodity trading and / or services to final consumers. Interestingly, that are used to describe the concept of "franchising" two words, both the English noun "franchise" and verbal gerund form of "franchise" and the French "franchisage" (which is a transposition in French the word "franchise"), not sure as to which prevails deployment simple and evocative noun "franchise".[8]

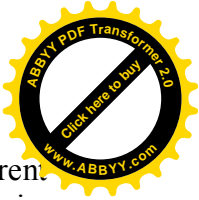
The book "Guide to Creation d'entreprise en franchise", Yves Iassi, noted that the term "franchise" was formed from the original French word "franc" having the meaning of authorization, as a noun and license free, free of adjective and taxes as part of the same family of words like the verb "affranchir", meaning to save taxes, free. In Germany, all in the Old World in the 1840s, major producers of beer gave the franchise to inns and taverns to sell beer produced exclusively by them in exchange for funding. [9]

Many believe that franchising is a purely American invention, America is the land that was born and grew the franchise and that after becoming a successful business in America was taken over by French, but, history, documents, archives and study long As noted above, counter that claim.

Thus, we can say that excess arose as a way of selling pressure to increase the production, distribution franchise system developed gradually, because the inability of manufacturers to buy real estate in other markets, to find suitable employment and especially the manage the business remotely. The emergence franchise was determined by the need to circumvent the provisions of U.S. antitrust laws. Thus, the franchise has come a long way and quickly became the most successful marketing concept ever created. Among the pioneers franchise included:

1. In 1731 Benjamin Franklin with Thomas Whitmarsh laid the foundation of the franchising business. Achieving a certain standard business model, Franklin was able to establish a chain of printing and distribution which was what we call today the training of operators for a fee.

2. Close to modern franchise relationship was found in 1850 Isaac Singer sewing machine company to "Singer Sewing Machine Company. To increase the distribution of machines, Singer contracts that other people could sell sewing machines produced by him



under the umbrella of "Singer". Singer contracts are considered precursors of the current franchise agreements. While diversified range of products, bringing to produce and electronic. If the start to be able to impose new product on the market, Singer had two problems: its potential customers had to learn to use sewing machines and to achieve mass production, needed capital, while using the franchise system and expanded global market by being among the first companies of international stature. Today is part of SVP World Wilde, known for Husqvarna Viking brand.

3. Manager of restaurants, Fred Harvey is seen as the pioneer franchise restaurants in the area since he founded the franchise concept based on "the idea of chain establishments, whether they are shops, restaurants and agencies.

The first chain of restaurants began to appear in the 1870s in the U.S., when a railway company wanted to open restaurants for passengers at stations along the line Atchinson-Topeka-Santa Fe. The railway company gave Harvey locations for restaurants and the right to free transport the goods and the demand for good service. On a year to get started the Harvey House restaurant opened one in every 100 miles along the said line, a distance of 12,000 miles. [11]

4. Beauty salon Martha Harper - The Harper Method Shop "was the mark for a beauty salon and a shampoo factory. In 1891 this business, owned by Ms. Harper, famous for her very long hair began franchising. Around the 1950s, have not less than 350 franchise units. Among the salon customers included the women's rights campaigner Susan B. Anthony and presidents Woodrow Wilson and Calvin Coolidge.

5. La briefly noted Coca-Cola and Pepsi-Cola, which took over from Isaac Singer this type of business in the franchise system from 1896-1897.

6. Industry vehicles since 1898 led by General Motors build economic mechanisms, trade and own legal system franchise by creating a huge distribution network, made up of traders working in close liaison with the manufacturer, which extraordinary profitability increased. In 1929, General Motors director, Peter Sloan created the most recognized franchise network distribution system.

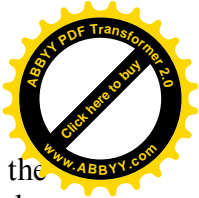
7. Customers of the restaurant no longer had to alight from the car and enter the restaurant to be served with drinks (root beer), but the staff (waiters, girl's later on skates, with wheels), traveled to customer, service being made through his car window. The initiator of this system began franchising restaurants serving A & W in 1924. Two of A & W Franchisee's brothers Sherman and J. Willand Marriott, which opened restaurants in Indiana and Washinton DC in 1920, brought an innovation, when asked for permission to serve and eat in these restaurants to increase turnover.

8. Between 1928-1929, in Europe is "the institution of the concession, following the typical franchise operation to become skillful in the early twentieth century, when Czechoslovakia is created in the industry's first franchise company" Bata ", and in France" woolen of Rouboix "developed network distribution of wool called" Pinguin "and" Salome Crys. [13]

9. Network Rexall Louis Liggett persuaded no less than 40 pharmacies to invest 4000 USD in its pharmaceutical products to retail them under the "Rexall". Franchise has made a dramatic jump after the Second World War. Distribution experienced a gradual evolution.

American middle class has become more mobile and he would be interested in fast food restaurants. Many networks today are true legends restaurants that have appeared in the first half of the twentieth century: Kentucky Fried Chicken (KFC), which began business in 1930, Dunkin Donuts `n started in 1950, Burger King on 1954.[14]

10. Not be achieved without a history of the franchise includes the vendor which was mixer batter and walked in the restaurant and as brothers **McDonald** assumptions of what occurred today is rated as the most extensive and known franchise worldwide. At that restaurant Ray Kroc discovered a new concept retrieval and order fulfillment and extension of the idea.



We can say that the American Ray Kroc was considered the "father of business" in the franchise system (business format franchising). McDonalds model was quickly taken over by other franchisors, most stations adopted the 60 repeated just a single image in all the supply chain. In the late '60s in the U.S., the turnover of activities based franchise was about 90 billion U.S. dollars.

In 1991, the American franchise system sales amounted, in value, with the seventh economic power in the world. In Europe the 90 there were about 85,000 franchisees and 1,600 franchise networks. France on the European market made 10% of trade in the franchise system. Therefore, if the franchise since its inception was a simple resale through distribution of affiliates - franchisors distributes products while knowing franchisees an upward trend of development. Crisis of 1929 and the war paralyzed the world economy and thus the system of franchising has experienced a stagnation until the late '50s, followed by a surprising development getting great importance throughout the North American converting it into a system that allowed the distribution of goods that are not necessarily the franchiser and provision of services in place for franchisees.

Analyzing the evolution of the franchise system in North American doctrine can be seen that there are two types of franchising, one on the distribution of products and the other on achieving business (original term is Business U.S. format and was translated into French by "Exploitation d'entreprise ". Although the Romanian concept of business has yet given a pejorative connotation, is defined as financial transactions, trade, business, usually based on speculation or speculation (DEX, 1996), note that while these negative shades blurred and the word itself as the perfect equivalent of "business" in English.

The economic doctrine of business concept was defined as obtaining profit, gain involving the license granted by a franchisor to its mark, know-how of all processes of business to sell products or services.

This new type of franchising has penetrated especially in the services sector especially in the restaurants, hotels, automotive real estate intermediation. The magazine "Fortune" shows that the success of this system enjoys in the U.S. business. Getting to ensure uniformity and quality of services has led to forms of control by the franchisor, considered abuse by the courts. Thus, in 1978 it adopted the U.S.A Federal Law "Full Disclosure Act, which came into force on October 21, 1979, ordering the franchisor certain restrictions on how it imposes certain contractual franchisees. It states thus franchiser obligation to provide beneficial information about the methods used pre, know-how of its legal and economic data about the business.

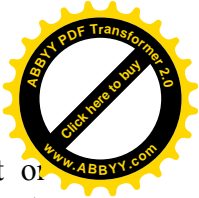
In the decade VIII, franchising has experienced a spectacular boom, coming to the 1989-1990 level of turnover resulting from operations franchising system is 10.8% of total turnover of U.S.A and if they could be compared with sales of franchising GNP only American franchise system would amount to a large seventh economic power in the world.

Currently turnover by those operating within this system (about 4000 franchisors and over 650,000 franchisers totaling over 10 million employees) exceeded \$ 900 billion, almost 1 / 3 of turnover in trade in the U.S. A franchising system is obtained.

In Canada the second country in terms of facility operations franchising system shows an interesting phenomenon, as English-speaking provinces are based on typical U.S. franchise operations, in which rigor is combined with professionalism, while the French provinces concepts appear franchising original, sometimes unexpected, the land of mini-golf at counters for fried potatoes in vans.

If Americans had to wait for the franchise fifties to get scale in Europe that happened at the beginning of the decade VII. It can be observed both at national and Community level, an effort of "moralization" conduct adopted by those involved in the franchising approach held by the various codes of conduct, drawn up during this period.

Since 1995, work in franchising system has seen a new impetus to reaching after 6 years in a number of 550 networks, which groups 31,000 franchised and carrying out an annual turnover of around 200 million euro's. Rapid analysis of these figures allows outlining more



prudent attitude franchisers who prefer to consider more carefully a saturated market of unstable, so at this time is no longer franchising is conducted in a construction accident. Economic activities in franchising system found favorable ground in countries like Germany, Spain, Italy, Great Britain, Northern Ireland, Sweden, Belgium, and the Netherlands. In countries like Switzerland, Austria, Greece, Portugal businessmen show reluctance to this system of making business.

Among the countries of Eastern Europe in Hungary, the Czech Republic and Bulgaria franchising has experienced significant development, those countries showing keen interest in foreign franchisor. In the space of the former USSR, the process is slower, is still marked by the bottlenecks of economic, social and political.

For Romania before 1989 the word "franchise" is only part of economic books about capitalism, described only in words gloomy disposition. Romania is among the few countries that have adopted laws concerning the legal status of organization and functioning of the trading system as the franchise quickly became a well known phenomenon. In Romania the rate of development and penetration in many economic sectors require the top franchise research topics of academic interest and business.

The phenomenon considered is much more complex as the Romanian people in general self-concept are the bearer of all unfavorable, lack of respect for individual and collective. The development of franchise networks, where one of Romania seems to be atypical. If W. Metzger is considered to be the first franchisee to trade in cars, in 1818 obtained the right to sell steam cars produced by General Motors in Romania.

Over 73 years have passed since their first commercial contract containing elements of the franchise system that has been done by Romanian club car company Hertz in 1975.

This contract was an isolated episode in the Romanian economy socialist. You can find similarities with the economy but other ex-communist countries.

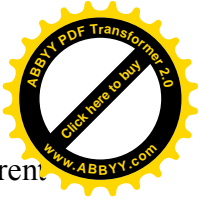
For example, franchise as a form of conduct of business has occurred in Bulgaria 25 years ago. The first franchise contracts were reported in years, 70 with Novotel, Hertz, PepsiCo, Coca-Cola, Sheraton. After 1990, the first forms of contracts in Romania close to classic franchise contract were the distribution and affiliation agreements. The first company to franchise the system entered the market in the period 1992-1993, the sector producing Coca-Cola and PepsiCo. And here Romania followed an identifiable path with the newly emerged countries under the communist regime.

Thus, more than $\frac{1}{2}$ of franchise chains present in Bulgaria have entered the market in the past 5-6 years. Foreign franchisors usually have their own units in Bulgaria and not yield the right of franchise franchisees. As the Bulgarian market is small compared with other markets, franchisors fail master franchise for the entire region (the Balkans or Eastern Europe), companies in Western Europe. Similarly, in Hungary, there is approximately 400 franchise business, half are foreign.

McDonald fast food chain's franchisers may be considered the leader in the field, not only in Hungary but throughout Central and Eastern Europe, following a successful transnational development strategy. Other successful franchises: Pizza Hut, KFC, Burger King, Fornetti, donut Enraged, etc...

In Poland worked at the end of 2005 more than 200 network (an increase of 20% over 2004) including 12,000 franchise units and over 13,000 employees. Most franchise systems from the EU (61.9%), and the largest network in the U.S., France and Germany. Well-known American franchises throughout the world were first arrived in Poland making popular the concept. The first franchisor in Poland, was McDonald's in 1992, now the most frequented fast food chain with 207 restaurants, 166 are owned McDonald's and 41 uderfranchise.

Between 1994 and 1996 in Romania there was a period of economic growth and more international companies have entered the Romanian market. First placed in the franchise network in Romania was McDonald's in 1995. This franchise has comparable results to the



world. Studies over the years have shown that the franchise is currently in over 80 different fields, but can not speak of a universal form applicable as a way to do business.

A study of the International Franchise Association show that 18% of the franchise system is in fast food restaurants and 11% in non-specialized distribution. Romania being in the stage of launch / growth in the franchise, is part of global trends, because the dynamism and progress in most sectors. If the 1990-2000 period were opened 35 franchise companies in the Romanian market system, of which 5 were domestic, in 2006 there were approximately 250 franchises, of which about 60 Romanian and 50 in the U.S., in 2008 their number over 400 units.

Reasons for increasing interest in franchising in Romania highlight Eugen Driga (consultant to the IMO Group Consulting) are: franchise business is a "key", which brings the franchisee not only technical know-how, but also know-how, managerial and entrepreneurial culture specific; increased competition on the Romanian market lead to interest entrepreneurs start a business under the brand of a famous mark; adapt business to international standards of quality, environmental, consumer protection. A major international franchise warranted on these rules.

„Franchising can and should be a successful adventure for both franchisees and franchisors”.

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