

Franchising—Paradigm of the Enterprise in the 21st Century

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Franchising as a specific form of business is one of most interesting and perspective forms of doing business in the 21st century. The present circumstances on the market touched by the crisis require (expected in 2021) the permanent looking for the certainty for the enterprises. One of it is franchising. It concerned the classical closed vertical distribution system, which is managed on contractual basis and one of the system members, named franchisor, connects some levels in the production-distribution chain. His partner is a franchisee. Both partners are searching for the optimal level of correlative relationship. It is a dynamic commercial system, which represents a modern form of cooperation between the enterprises. Franchising is regarded as a progressive marketing strategy. It is one of few forms of entrepreneurship without stagnation in the crisis period, as well.

Keywords: entrepreneurship, business, competitiveness of company, franchising

Introduction

If we in compliance with Ludwig Wittgenstein understand as paradigm the model or standard according to the experience has been judged (Wikipedia, <http://sk.wikipedia.org/wiki/Paradigma>) and as franchising we understand the vertical marketing system, verified by franchisor offering it for the royalties to legislative and economic independent franchisee, based on contract, inclusive the licence, schooling, continuous educating, trade mark, and know-how (Orgonáš, 2013), then it is evident that franchising is a way of the entrepreneur activities; they are modern but in approved form. It is modern enough and approved, as well, to represent the possible effective way of the system of the entrepreneurship in the 21st century.

Nowadays, it is already a traditional form of the entrepreneurship, in last years, very often discussed about. We regard the splitting development of franchising from the end of the 20th century till today. Franchising is important also for that reason that it prepares the possible expansion to segment of small and medium sized enterprises. One of five stressed aims of the “Strategy Europe 2020” is to minimize the poverty and to fight against the social exclusion (http://ec.europa.eu/europe2020/index_en.htm) and all these in the context with high unemployment mean that the Member State of European Union (EU) try to create the economic framework, which by self-employment, as well, enlarges the possibilities of SME entrepreneurs. And franchising proves as an ideal solution.

Franchising as a Model of the Entrepreneurship

Speaking about franchising means to think more about the business activities of SMEs. They are more

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than 90% of all entrepreneur subjects, so they are extraordinarily strong factor of the employment, not a bene, using the statistical information that the probability of animateness (running life) of the franchising entrepreneurship concept after five years from the beginning of its existence is so far eight times higher than the other types of entrepreneurship.

Franchising is fascinating business area and one that has served those well who have been involved with ethical and responsible franchising operations. The franchising philosophy is that it is a great method whereby those who have experienced and been successful in a structured business environment, and who would love to satisfy the dream of self-employment, are able to do so but with the safety net of having the organizational structure of the franchisor behind them to give advice and guidance as they realize the dream and move forward to self-employed success (Weber, 2013).

Franchising supports also the policy of the middle stratum, because it creates new small and medium sized enterprises; they are ready their status in the franchising enterprise not only to hold, but also to develop, as well. It contributes to the transformation, the modernization, and professionalization of the traditional business formats (European Franchise Federation [EFF], 2011) and generates new goods satisfying the consumer needs, even the new services. From such form of the entrepreneurship, benefits the state also as public revenue, as the franchising enterprise belongs to the proper business form and the entrepreneurs use to pay taxes. Franchising is a contribution to the education and the knowledge of the companies' members, because the education activities are the fundamental and unavoidable requirements of the quality franchising system. It is creator of best practices, which are used to the motivation of the others. The correctness of this form of the entrepreneur activities is emphasized by Code of Ethics for franchising. It works not only on European level, but on national level, too. It is a basic element for permanent exercising of the fairness of the business relationships. And if some problem arises, both sides see by mediation form to find the effective solution. The fairness of these relationships is highlighted by offering the tried concept what eliminates the possible complications in the future.

In some point of the decision-making development, if to begin with franchising, how to finance it, evaluating the present status and expected development, the entrepreneur putting on the weighing machine the pluses and minuses, compares, evaluates, and analyses it, and he resolves the final decision. We may find the simplified decision model on the webpage of the Slovak franchising association and this is a very good tool at the entrepreneur decision.

Moreover, the business environment is for franchising very important. A high-quality entrepreneurial (or business) environment means good conditions for a free enterprise—the maximum possible territory for both free enterprise and private initiative. It is the quality of the business environment which greatly affects the performance of the business sector and creates space for dynamic development of franchising. The basic parameters of the business environment include:

- the existence of private property and its protection;
- protection of the rights of owners to dispose of their property, including the right to income, liability for losses stemming from ownership or from business activities;
- the protection of economic freedom, including the freedom to enter into contractual relations with others without restricting state interference;
- effective and rapid enforcement of contractual obligations in the event of non-compliance by either of the parties.

Simply put, everything that extends freedom of business improves the business environment. Any negative interference or restriction of business freedom means a deterioration of the business environment. Franchising companies operate in a complex market environment. Those ones which intend to maintain their market position in the long run must monitor and analyse their surroundings. The business environment of such business (franchising) entities is made up of micro- and macro- environment.

The micro-environment of an enterprise represents the closest components of a company which directly affect its performance. The macro-environment consists of larger social forces that operate on all business entities. In the context of ever-increasing globalization, we can differentiate the macro-environment even from the point of view of national or international business environment. The international environment gains growing importance for franchising companies, since it is related to internationalization and globalization, but also to the dynamic growth of “internetisation”, which all contribute significantly to the development of a competitive environment for franchising companies.

From first perspective, it is clear that the pluses outbalance the minuses and the negative aspect is possible to eliminate, or strong to reduce by a prime preparation and communication during the training, such as by signing a very high quality franchising contract. The franchising contract is “*conditio sine qua non*” of working franchising chain. The franchising contract is materializing of the commerce agreement between franchisor and franchisee to the legislative framework and it constitutes the basis for cooperation in the franchising system. In Slovak republic absences, the existence of specialized legislative oriented on franchising, therefore we tell that it is an innominate contract; that it means it does not exist specialized franchising law in the legislative system of Slovak republic. It is a contract “*sui generis*”; it means that the contract partners oneself decides about the content and its width and depth.

Who Can Take Advantages of Franchising?

One thing what the franchise contract deals about is the risk of secret disclosure of the franchisor and the fact that it really happens; the franchisor educates a direct competitor and, sorry about it, a very first-rate competitor. The precondition is that franchisor devotes to franchisee much time and on that way that the goal is to prepare a strong chain link of his system. Franchising, as one of the most correct way of the entrepreneurship, assumes that in the relationship, one met two serious partners working by “win-win” way. The practice how it has looked like is in Table 1.

Misgiving presented upper is legitimate, but the practice fortunately confirms that they are more special situations.

EFF (2011) noted that franchising is a vector of growth of economic activities and richness. In adds to the employment increase, the number of small and medium sized enterprises, and their turnover, it is a rational format with clear divided tasks, and it is a dynamic and effective system. It is a representative of self-employment for many segments and is here in the moment of the entrepreneur needs the reorientation or looks for a new field of activity. It represents the way of operations at home or abroad. It is a part of long life learning (LLL)—what is immanent substance of franchising. It offers the checked method of operations and a healthy competition. At the same time, it is a solution for entrepreneurs; they, in this turbulent period, the period of economy and financial crisis, are looking for programme, new entrepreneurial intention, and concept, the necessary marketing mix, self-realization.

Table 1

Win-Win Relationship Between Franchisor and Franchisee

Franchisor	Franchisee
Idea	Entrepreneurial spirit
Brand/Image	Loyalty
Marketing/advertising	Regional market application
Planning of assortment and equipment	Regional know-how
Entrepreneur know-how	Entrepreneur engaging
Tried commerce concept	Capital and the nearness to the consumer
Continuous next development of procedures and organizational structure	Active integration
Right to use the commerce concept	Conformity about the framework conditions
Education, training, negotiations	Preparedness to continuous knowledge transfer
Advantages of common purchase and insurance	Openness and ability of team work
Next concept development	Franchising fees

Note. Source: DFV (2012). Franchise-Ratgeber 2012/2013.

The self-realization creates the internal satisfaction. It is a good precondition for the success, too. The entrepreneur achieves the self-realization, reaching a partial goal and permanently gets better and it rises up to the higher objectives. Therefore, it is exceptionally important to fix a clear and realistic goal and to concentrate the own capabilities of knowledge and finances to reach the stipulated marks. Franchising is exceptional, despite the entrepreneurial subject gives up a part of own identity, just this step allows to encourage to proceed as far as he can. Why to repeat the faults? Why to make the false decisions? The franchisee receives, as counterweight of giving up of own identity, the ready solutions, the ready algorithm, the complex of successions running to the execution of his projections, self-realization, and to commercial and social success. Without franchising, everything would be more complicated and took more time, including the systematic education, too.

Based on these facts, it is needful to make a permanent dialogue with the franchisor and systematically to be schooled. But it is a bidirectional process. The franchisor may much learn attentively hearing his partner, the franchisee. The franchisor, we trust, did not choose his partner as a fool and the franchisee did not decide in the long term to cooperate with any amateur. This, reciprocally impacted consonance, evokes the idea that franchising is like a marriage and success of one is the success of the opposite.

To Start to Conduct Business in the 21st Century?

Many people are asking if right nowadays, in the 21st century, is the appropriate time to begin to be in business. If yes, which form? There are number of companies and entrepreneurs loosing at this time the ability to be competitive and are looking for the space where to live out or secure the growth. The response may be franchising. Let us try to imagine how to do business with the brand that everybody knows. How could it be to gain from the experiences of successful people, to have the admission to the most modern technologies and be ahead of the competitors? Imagining the synergies on side of costs, what could signify well-known thin line between the success and the crash? Selecting the suitable partner, you have a chance to create own business and refill yourself. It is only the right decision about (Slovak Franchising Association [SFA], 2012).

In the last 30 years, the franchising sector became one of the most popular and respected sectors. According to International Franchise Association (IFA), which is measure of success of the companies 90%,

comparing the others with 12% successfulness of individual entrepreneurial business, franchising is active in more than 70 various branches. Its world development is phenomenal; the same stands about its future. They are constantly introduced the new products and concepts. Some of them are growing quickly, and the others a little bit slower, but majority of them, comparing with individual business, are very successful (Vidová, 2012).

Franchising is solid part of every economy, where the model of the entrepreneurship is relative stable and resistant to surroundings. The non-favourable business environment in Slovakia and permanent may be worse conditions for entrepreneurship, do not create the positive social climate for creating the new companies, and so also increase employment. The reliable investment in the 21st century is the investment to franchising. The positive effect has the franchisors and franchisees. The advantage of one of them is the quick chain development, quicker expansion to the new markets, better negotiation position on the market, the sure and quick stream of the products, lower finance claim. The advantage of the other is quicker market entering, help at the start and during the time of franchising cooperation, lower entrepreneur risk, tried know-how, brand support of licence provider, and having enough of independence and enough of own initiative. Franchising represents anyway the modern form of business and is one of most effective and successful way of permeating and entrenching on the market (very important in the crisis time). Its share on GDP is even permanent increasing.

The Franchising Capacity

In accordance with the President of Slovak Franchising Association Mr. Richard Churý, the crucial reasons of the big franchising potential into future are (Churý, 2012a):

- know-how expansion paid by other people;
- the people motivation to build up something own;
- the effort to win the personal freedom (dividing from the employment);
- the risk at franchising is lower as at enterprise in the time of the crisis, too.

Apart from this, the potential franchisee has a wide possibility in which segment of economy they want to conduct their business. The offer is broad, from classic retail, HO-RE-CA sector, via various types of services, advisory companies, real estate companies till nursery schools, retirement homes, hobby, free time, health and healthy life style, fitness, beauty, bio products, well-balanced diet, smoking ending and many others.

The franchising development is going hand by hand with new technologies. We may speak about the whole complex beginning by logistics till mobile applications. The dynamics of today and trends in management concern the franchising, too. The computer applications for logistics and supply management make possible to achieve the deliveries using the method of just in time (JIT) and at the same time to decrease the cost for both, the franchisor and the franchisee. They facilitate the vendor managed inventory, possibly the complex network of the information system; they are based on Electronic Data Exchange (EDI), using online networking and communication, mobile systems or other modern IT technologies (internet, social medias, etc.), what contributes to effective management of large number of units. The franchising information systems were enlarged about the system managing the relationship with customer (customer relationship management [CRM]), but with the supplier, too (supply chain management [SCM]). It is necessary to say that with compliance with the theory of Rogers' diffusion of innovations (Rogers, 2003), the franchising systems belong to the innovators of technical and technological elements.

Conclusion

Coming to the conclusion, we would like to note that franchising is a modern form of entrepreneurship going in last year through the renaissance. It is relative safe form of commerce activities, especially in the time of crisis. The compactness, integrity, and reliability of the system are preconditions of living through and reaching the success. It brings the advantages for both sides of this contractual relation. It brings the business possibilities. We suppose franchising entrepreneurship creates in this century one of the bearing wall of the entrepreneurs activities; it will generate new employment and adds to the stabilization of small and medium sized enterprises (SMEs) in commerce sector, services and tourism. Franchising is able to adopt quickly the market demands and belongs to them; they are responding on consumer real needs. Its GDP share will permanent grow up. As Mr. Richard Churý, at that time the President of SFA, guessed on 1. Slovak Franchising Conference in November 2012: “The franchising share on enterprise will be 50%” (Churý, 2012b). Although this assertion we consider as to courageous and optimistic, it points out the realistic view on franchising as master paradigm of business in the 21st century.

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