

Franchising Modern Form of Business for Small and Medium Sized Enterprises in the 21st Century

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Franchising is a specific form of business, which began with development in the 50th of last century, whereby the noticeable dynamics gained at the end of last two decades of the 20th century. Its specific substance wins by offering of attractive possibilities for small and medium sized enterprises, in particular by effectivity, lifetime stability in first five years of business activities and its positive vision for survival in the period of crisis and turbulent time. The successfulness of entrepreneurship by franchising form is one of the safety forms of entrepreneurial activity. It offers anyway the rational format with clearly divided tasks, which is the base of dynamical and effective system, at which its compactness, integrity, and reliability is the precondition of surviving and achieving of success, for both parties—the franchisor and for franchisee, as well. Franchising is model for small and medium sized enterprises, which works well if both sides become integrated with it. Problems described in the present paper constitute part of the research project under Grant project of the Slovak Franchising Association (SFA) (project period: 2017-2018). Questionnaire was prepared by the authors and the participants were the members of SFA. The questionnaire method applied the open and closed questions, as well. Results and conclusions are presented in the article.

Keywords: business environment, entrepreneurship, business, competitiveness of company, franchising

Introduction

We are living in dynamic era. If we would like to characterize it by few words, then quit sure by name as globalization, internationalization, internalization, and digitizing. The globalization and internationalization of international business contributed by fundamental way to creation of competitive environment; they determined the development of activities in segments of service, business, and production, as well. The market is more and more saturated, the conditions for business are made harder, the market niches are found more difficult, and so franchising offers for enterprise beginners, not only them, but also the ideal possibility how to

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begin the business activities. Besides, the entering into new markets is more and more complicated and the entrepreneurs use always more sophisticated ways. We may consider franchising as one of main development powers of business, even of development of national and world economy. It represents the modern form of cooperation.

Franchising—The Definition

Franchising belongs to vertical marketing systems. The conventional marketing channel is created by independent producer, wholesaler, and retailer. Every of them is an independent company striving for maximization of own profit, even if such effort runs to lower profit of the system as unit. Nobody of the members of the marketing channel has a complete and crucial control over the other members. The vertical marketing system is splitted to three types: the corporate one, administrative one, and contractual one (Kotler & Keller, 2013). Franchising, as contractual marketing vertical system, is used nearly all sectors of economics.

We tend to delineating of franchising term, as follow: “Franchising is a vertical marketing system, verified by franchisor, who offers it to legally and economically independent franchisee, based on franchising contract for a fee, incl. know-how, licence, schooling (input and continuous) and trade mark”. The common synergy of activity of both partners is by application the workload method, which is based on the ability to calculate the total amount of work necessary to serve the entire market (Winer & Dhar, 2011). The number of sale points depends on evaluating the chosen region or area. They create the basic geographic unit, which insists on estimated market potential in each basic geographic unit. The units should be combined so as to make the territories equal in the market potential. The number of such territories should be based on calculations of the appropriate purchase power. Every such unit has its own exclusivity.

Analysis and Discussion

In European economy space are active nearly to 20 million of micro-, small-, and medium- sized enterprises (SMEs). They are the main source of job opportunities and are the call for economic competition. They contribute to working places creation and to economy development and insure the social stability. In 2013, they represented more than 23 million of SMEs and in EU 88.8 million of working places. Nine of 10 enterprises were the SMEs and created two of three working places. SMEs encouraged the business mind and innovations in whole EU; therefore, they have a cardinal importance from point of support of competitiveness and employment. EU has the aim to increase the competitiveness of European economy and to support the working places creation and the economy growth by creation of business beneficial environment, especially for SMEs. They

- Represent to 99% of companies;
- Offers 67% of working places;
- Create 85% of new working positions.

The European Commission so fixed these priorities for internal market, entrepreneurship, and small and medium sized business (EC, 2017):

- Ensure an open internal market for goods and services in the EU;
- Improve the range, quality, and competitiveness of products and services on the internal market;
- Strengthen the industrial base in Europe;
- Provide sector-specific and business-friendly policies;

- Promote industrial innovation to generate new sources of growth;
- Ensure a modernised system for public procurement, which provides better access to public;
- Contracts on an EU-wide basis;
- Encourage the growth of SMEs and promote an entrepreneurial culture;
- Support the internationalisation of EU businesses;
- Facilitate access to finance for SMEs;
- Support the free movement of professionals in EU;
- Support the development of global satellite-based navigation infrastructure and services (Galileo);
- Promote the use of EU earth observation-based services (Copernicus).

These attributes fully answer franchising, which is a dynamic and effective form of business increasing. It is the engine of self-employment, or employment of family members. The survive probability of the company in this business format is high and contributes to sustainability and in the time of crisis to employment increasing, as well (after five years of existence live through only 12% of companies, in franchising more than 80%).

As International Franchise Association (IFA) observes in the report published in Washington on April, 10th, 2015 “Franchise employment growth continues to outpace economy-wide hiring”, the franchising business will increase and create new working place in the future faster than in 2015. IFA underlines the fact that franchising is very attractive opportunity for the beginning entrepreneurs:

- In 2015, the number of franchising companies increased to 781,931, the growth 1.6% comparing 2014;
- The franchising systems in 2015 offered 8,820,000 working places, the growth 2.9%;
- Estimated growth for period (2017-2020) is 4.2%.

European Franchise Federation (EFF, 2011) engaged with the franchising position in current period. It is assumed that in this century, franchising will be the vector of growth of economic activities:

(1) Franchising in Europe has proven to promote the creation of enterprises and small-business ownership and, as a consequence, of employment and of turnover.

(2) Franchising with its business-format rationale, its contractually-specified roles and responsibilities of franchisor and franchisee respectively, the transfer of know-how from franchisor to franchisee, and the built-in two-way communication, is a dynamic and efficient system for enterprise growth.

(3) It is also an entry vehicle to self-employment for many segments of the work force, including people who want to re-orientate their working lives and who do not necessarily have prior entrepreneurial experience.

(4) A proper franchise system ensures the continuing provision of commercial and technical assistance throughout the term of the contract and thus truly increases the survivability rate of start-ups as well as their sustainable growth, particularly in times of crisis as the circumstances of the latest crisis has shown.

(5) Franchising is a mode of business development both at local/domestic level where it generates enterprise creation, employment, and wealth as well as at international level. At this level, it is a natural vector for the export of business and for cross-border trade, as well as a venue for incoming foreign investment.

(6) Franchising contributes to the transformation, modernization, and professionalization of traditional trades and services as well as the formatting of new trades and services. It also professionalises and renders transparent significant portions of the informal retail and service sectors, both in terms of employment and tax benefits.

(7) Franchising, through the in-house training programs for franchisees, and often of their staff, promotes the learning of entrepreneurship as witnessed by the many examples of organic growth stemming from franchisee staff members eventually becoming franchisees themselves.

(8) Franchising promotes best practice and healthy competition between franchise networks (inter-brand competition).

(9) A franchise contract contains vertical restrictions to protect the franchise know-how, identity, and brand image on which everyone in the network depends.

Franchising has ability to achieve true economic empowerment through small business creation. Franchising, when implemented correctly, is a powerful tool to grow a business. Resuming all materials and sources, we offer our vision to franchising development in the 21st century as a modern form of business, especially for SMEs.

We expect next trends of franchising development in this century:

- Casual fast restaurants will be growing. Sector of grocery, health, sport, beauty care, as well;
- Mass customisation is becoming more important;
- The demand of services (on-demand, too) will play an important role;
- New forms of marketing will be implemented;
- Online shopping, as modern form in commerce sector, will be gaining ground quickly;
- Consumers want experiences not products, notably by importance of millennials;
- Consumers will be looking for variety and added value;
- Franchising and similar cooperation forms will dominate in commerce sector;
- Franchising will be most dynamic form of development in commerce sector;
- The power is in unity; the unity is franchising;
- In the 21st century, only those who will establish the network or those who will be a part of the net will be successful.

Conclusion

At the conclusion, we may observe that franchising is a very modern form of business, which is passing in recent years the phase of renaissance. It is a relatively secure form of entrepreneurial activities. The core of compactness, integration, and seriousness of the system is an assumption of survival and achieving success. We anticipate that in this century, the franchising business will create of the storey post of doing business, will generate new working places, and will contribute to stabilization of SME in commerce sector, industry, tourism, and services. Franchising is able to adopt the market requirements and belongs to those who response the consumer claims. Its GDP share will permanently increase. One of the franchising enterprisers ascertained that in 20 years, the franchising entrepreneurship share will arrive 50%. We consider this affirmation as to brave and optimistic, but nevertheless it brings a realistic view on franchising, as characteristic model of business in the 21st century.

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