

Significant Aspects of Franchise Evolution

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Abstract

In this paper, the authors analyze the franchise activity's evolution during the recent period. Apart from the study and interpretation of data, the qualitative side of this business is valued and described. Franchise is a characteristic of the market economy and it can clearly contribute to the expansion and development of businesses, as the advantages of this model of affairs are real and relevant for any entrepreneur. The franchisee and the franchisor operate within a partnership aimed at profit for both parties. But, all those advantages also come with some risks associated, discussed by the authors.

Key words franchisee, franchiser, business, success, profit, production, services, commerce

JEL Codes: F0, M1, M2.

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Introduction

With the transition to the market economy, the notions of franchise, franchisor and franchisee also came into the economic vocabulary. The franchise is defined as a modern method of starting and running a business on its own, namely to produce and / or market, in a certain space, goods and services that have been successfully launched in other domains or other markets, based on a will agreement between partners wishing to develop a business in their own interest. Therefore, from a legal point of view, the franchise is the result of a contract between two or more persons, with the object of granting a concession whereby a person named franchisee receives from another person named franchisor the right to engage in the production, offering, selling, distributing goods or services, according to a particular business development plan developed by the franchisor. In essence, franchise operations are in fact three ways: the selective and limited distribution of products through the use of the manufacturer's name or a trademark (e.g. cosmetics), the concentration of an entire business operating system (a motel network), or the use of factory / trade marks in a production process under a license (e.g. Coca - Cola production and bottling).

1. Literature review

In this paper, the literature has been analyzed, both nationally and internationally. In the conducted study, it can be mentioned that the franchise is the safe way of launching someone in the business using their own resources but benefiting from the experience of a strong partner, given the transfer to it of a share of the planned profit. Under the franchise contract, the franchisor becomes the person who pays one or more fees to earn the right to do business with the business of another company, called a franchisee. In turn, the franchisor is the natural or legal person who has affirmed himself in the business world, by setting out a certain method of success, which he concedes to another person, in exchange for strictly regulated contractual clauses. The franchisor may grant the franchisee, as the case may be: his trade mark, the method of his inventions or innovations, a certain production or commercial system, a certain marketing technique, the training of personnel, the renewal of manufacturing technology, etc. (Dobrotă, 1999, p.219-220).

2. Research methodology and data

Franchise, a very popular business concept in the US, was almost unknown in Romania in the early 1990s. Meanwhile, entrepreneurs in our country have become more and more interested in this type of business, so some have bought international franchises and launched business with them on the Romanian market, while others have

been inspired by the dowry know-how that accompanies the franchise and have decided to expand their own business in this way. Regarding this aspect, it could be tried to be captured the evolution of this phenomenon on the Romanian market, taking as landmarks the year 2006, when the franchise market was profound, managed to cover more and more fields of activity, and 2015, when it is estimated that this business system has been strengthened. The chances of success in the field of franchising are given by a mix of economic, political and psychological factors, among which we consider to be more important: the dynamics of the national, regional and international economic climate, the reconsideration of the purchasing decisions by the final customers, the acceleration of the phenomena the globalization, the attraction of successful brands, which are also the bearers of verified business methods, the growing attractiveness of the domestic business environment, etc.. Beyond these general success factors, the authors appreciate that two major marketing vectors have been the basis of the expansion of the franchise on the Romanian market: the visibility of the brand being offered in concession and a verified business system that has already been successful in other markets.

3. Results and discussions

3.1. General aspects about the franchise in Romania within the timeframe 2000-2015

According to the studies, in 2003 there were 86 franchises, in 2004, 124, so that at the end of 2006, 282 franchise systems were registered on the Romanian market, 111 more than in 2005, the figure for the overall business was about one billion euros, about 100 million more than the previous year, and about 270 million more than in 2004.

Of these, in 2006, 76 franchises were of native origin, with 31 more than the previous year. Regarding the fields of activity, at the end of 2006, the largest share was retail - 58%, followed by services - 40% and industry - 2%. The results revealed that more than 60% of the franchise market was concentrated in Bucharest, the other large urban centers showing interest in the development of business, especially for those who were strong.

An analysis, even brief, of the number of franchises opened in Romania, surprised the following development: Fornetti - 500 locations, CBA - 413, European Computer Driving License (ECDL) - 400, Rodipet - 200, Romstal - 103 and Dallmayer - 100 units. Worthy of note for this period is the success rate, which is an international indicator showing how many of the franchise businesses put into service are visible on the market at the end of the first 12 months of activity; and this indicator was for Romania 95%, while the European average was 89%. The segmentation of international franchises entering the Romanian market in 2006, surprised the following hierarchy: USA - 23%, Italy - 13%, Germany - 5%, Spain - 5%, France - 4%, Great Britain - 4%, Others - 46 % (Covers about 14 states, Australia, South America, Eastern Europe and Asia). The most extensive local franchises: Rodipet (the most important press distribution company in Romania, supplying 1,800 points of sale daily) - 200 franchised units, Romstal (sanitary fittings, ceramics and lighting fixtures) - 127 units, Auguri (selling hot pastry products) - 40 units, Happy Beary - 30 units and Agroland (area leader in retail chicken and animal feed) - 21 units in 12 counties. According to turnover, in 2006, the most powerful domestic franchises were: Romstal - 36 million, Agroland - 3.3 million, Turabo Cafe - 3 million, Perfesc Nails - 2.3 million, Rodipet - 1, € 3 million, Bella Italia - € 1.3 million. The most expensive franchises of 2006 were considered to be: Debenhams (Women's fashion men's and children's footwear, footwear and accessories, and interior design) - EUR 2 million, Ermenegildo Zegna (one of the largest Italian producers - 1 million euros, KFC (fast food restaurants network with chicken products, prepared according to an original recipe created by Colonel Sanders) - 300,000 - 1 million euros, Pizza Hut (restaurant network Pizza Hut, casual dinners) - 300,000 - 1 million, Sabion (jewelry trade) - 547,000 euros.

The cheapest franchises of 2006 were looking for people willing to engage in business under the following conditions: Rodipet: zero euro, providing: low maintenance costs, new free kiosk, daily supply of products for sale, free advice and service promotion at national level; Freaky Tattoos: 172 euros, providing: offering the largest collection of temporary tattoos, royalty 4% of free turnover and advertising; Great Plates: 1,500 euros, ensuring products without any deviation from the original recipe; Proton: 1,500 euros, providing franchise partners with brand awareness, specific know-how and staff training; GS Bet: EUR 2,000, providing free of charge all the facilities; Ellvila's 2,000 euros, out of which the expenditures for the arrangement of the commercial space are ensured (CHR Consulting data and the top Franchise publication in Romania, 2007). For the year 2015, the franchise process has been appreciated by the way "Although it is still the result of developed markets such as France, the franchise market in Romania is growing slowly and surely. However, in the process of growth, as in the case of a child, education, structure and measure is needed" (Rosca, December 2015, p. 8). In 2015, 345 franchise concepts were present on the Romanian market, 11% more than in 2014, and the number of newly launched concepts reached 40, 50% more than in 2014. Thus, at the end of 2015, Romania recorded 385 franchise concepts in total, both active and new, the upward trend being appreciated by the fact that " ... the franchise market totals over 8 300 units in franchise, which is an

average of 25 units / concept, and this indicator is increasing compared to last year (when it was 23 units / concept). (Voicu and Stanciu, December 2015, p. 12). Domestic turnover has almost doubled since 2006, reaching a total of about 1.9 billion in 2015, up 19% from 2014. Overall „One of the franchises active in the market have over 10 units / franchises. This shows a maturity in business thinking. There are many concepts that have perfected their management systems and have a medium and long-term vision. These franchises are mostly operated by small entrepreneurs. At the opposite end, we have an early stage market, so that almost 40% of the active concepts have only one or two units operated in a franchise system (Voicu and Stanciu, December 2015). The franchise business opportunity is convincing when from one to two units is quickly reached a network of seven, ten or twelve units. This gives a better perspective, a dignified position and a better collection of scale revenue, knowing that the first unit generally costs 30-40% more than the next.

The segmentation of the 344 franchises active on the Romanian market in 2015 has the following distribution (processing after Inventure Franchise Consulting):.

Table 1. Franchises segmentation on the Romanian market

DETAILS	Market	Active franchises	Percent
RETAIL	Clothing and footwear	80	44%
	Specialist rehabilitation	25	14%
	Food	21	12%
	House and garden. Building materials	21	12%
	Beauty July	12	7%
	Jewelry and Accessories	9	5%
	IT & Telecom April	7	4%
	Retail sports articles	3	2%
	Auto and spare parts	2	1%
TOTAL		180	
SERVICES	Financial services. Insurance. Investment December	12	13%
	Business and training	11	12%
	Beauty October	10	11%
	Children September	9	10%
	Tourism and transport	7	8%
	IT	4	4%
	Maintenance and cleaning	3	3%
	HR March	3	3%
	Auto	3	3%
	Personal development	2	2%
	Insurance & Investments	2	2%
	Other Services	24	27%
TOTAL		90	
HORECA	Restaurants / Fast Food	25	34%
	Café. Chocolate. Tea house	20	27%
	Hotel. Motel	10	14%
	Confectionery. Ice cream October	10	14%
	Dumbbell. Pretzel July	7	9%
	Other	2	3%
TOTAL		74	

Source: Processing after Inventure Franchise Consulting

Most franchises are characterized by small business figures. The structure of the franchises according to the turnover in lei is presented in the following table (Voicu and Stanciu, December 2015):

Table 2. The structure of franchises by turnover

CRT. NO.	Turnover	Percent
1	0 – 100 000	26%
2	100 001 – 300 000	13%
3	300 001 – 1 000 000	21%
4	1 000 001 – 3 000 000	18%
5	3 000 001 – 10 000 000	13%
6	10 000 001 – 50 000 000	7%
7	Over 50 000 000	3%

Source: Inventure Franchise Consulting

The franchise distribution according to the number of units in franchise, number of units / concept shows that the franchises with 1-2 units have 39.2%, the ones with 3-6 units have 22.6% and the ones with over 7 units have 38.2%. The more detailed situation of this distribution is presented in the following table (Voicu and Stanciu, December 2015):

Table 3. Franchises distribution by units

CRT. NO	UNITS	PERCENT
1	1- 2	39,2%
2	3 -6	22,6%
3	7 - 10	9,4%
4	11 - 20	11,9%
5	21 - 50	7,2%
6	51 - 99	5,3%
7	OVER 100	4,4%

Source: Inventure Franchise Consulting

This time, segmentation of the franchise market by country of origin concepts is as follows: 21% of the US, 14% of Italy, 12% of France, 6% of Spain, 6% of Germany, 3% of Poland, other countries.

In principle, franchisees decide for independence, entrepreneurial freedom, proven expertise, know-how. The franchise looks for partners who have entrepreneurial aspirations and abilities to run their business in line with certain quality standards, performance indicators, but also innovative, appropriate and forward-looking capabilities that target end customers. Potential partners with a franchise or franchise system need to be aware that any new business requires an initial capital on which to support the effort to reach the profitability threshold and then the profit level.

Conclusions

Franchising is, above all, a factor for the modernization of the business environment, as the franchisee enjoys the franchisee's know-how, continuous counseling, opportunities and multiple opportunities to generate revenue through membership in a verified business idea. Naturally, franchising may also involve risks for the franchisee, although they are much lower than when a business is built from scratch. Of course, the franchisee must be able to overcome some of the organizational and bureaucratic burdens of any start, as well as specific burdens related to business management and management. Any franchise business is only possible if there is a relationship of complementarity between a franchisor and a franchisee, a certain chemistry, which gives perspective and confidence to processes that necessarily require synergy. The most important thing for the franchisor is being convinced that the franchisee believes in the proposed business model. It is important that the franchisor feels that the franchisee is loyal, is willing to make good faith efforts for the efficient use of proven and proven know-how. The franchisor must see in the franchisor a part of a larger, integrated system, a partner willing to follow the directions and advices given.

Franchisees encourage franchisees to provide information from the terminal subsystems to ensure that the system operates properly.

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