FRANCHISING – A SUCCESSFUL FORM OF ENTREPRENEURSHIP

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Abstract: *A franchise is a contract through which a person, called a franchisor, grants to another person, the franchisee, the right to exploit a set of intellectual property rights for the purpose of producing or marketing certain types of products or services. The advantage of this contract is that the franchisee has reduced costs for promoting his products or services. On the other hand, there are also some disadvantages, such as the company will never belong to you. In the Business Format Franchising, the franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor.*

Keywords: *franchise, contract, franchisor, franchisee, operating manual.*

- **What is a franchise**

Franchising is based on a marketing concept that can be adopted by an organization as a strategy for business expansion. Where implemented, a franchisor licenses its know-how, procedures, intellectual property, use of its business model, brand, and rights to sell its branded products and services to a franchisee. In return, the franchisee pays certain fees and agrees to comply with certain obligations, typically set out in a Franchise Agreement.

- **History**

The Singer Company implemented a franchising plan in the 1850s to distribute its sewing machines. The operation failed, though, because the company did not earn much money even though the machines sold well. The dealers, who had exclusive rights to their territories, absorbed most of the profits because of deep discounts. Some failed to push Singer products, so competitors were able to outsell the company. Under the existing contract, Singer could neither withdraw rights granted to franchisees nor send in its own salaried representatives. So, the company started repurchasing the rights it had sold. The experiment proved to be a failure. That may have been one of the first times a franchisor failed, but it was by no means the last. Still, the Singer venture did not put an end to franchising.

- **Business format franchising**

There are two different types of franchising relationships, but Business Format Franchising is the type most identifiable to the average person. In a business format franchise relationship the franchisor provides to the franchisee not just its trade name, products and services, but an entire system for operating the business. The franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor. More than 120 diverse industries use franchising as their route to market including: education, travel and tourism, food and beverages, restaurants and many others.

- **Fees and contract arrangement**

Three important payments are made to a franchisor:

- a royalty for the trademark;
- a reimbursement for the training and advisory services given to the franchisee;
- a percentage of the individual business unit's sales.

These three fees may be combined in a single 'management' fee’. A fee for "disclosure" is separate and is always a "front-end fee".

- **Franchising is about relationships**

Many people, when they think of franchising, focus first on the law. While the law is certainly important, it is not the central thing to understand about franchising. At its core, franchising is about the franchisor’s brand value, how the franchisor supports its franchisees, how the franchisee meets its obligations to deliver the products and services to the system's brand standards and most importantly – franchising is about the relationship that the franchisor has with its franchisees.

- **Franchising is about systems and support**

Great franchisors provide systems, tools and support so that their franchisees have the ability to live up to the system's brand standards and ensure customer satisfaction. And, franchisors and all of the other franchisees expect that you will independently manage the day-to-day operation of your businesses so that you will enhance the reputation of the company in your market area. When selecting a franchise system to invest in, you want to evaluate the types of support you will be provided and how well the franchisor is managing the evolution of the products and services so that it keeps up with changing consumer expectations. Some of the more common services that franchisors provide to franchisees include:

- A recognized brand name;
- Site selection and site development assistance;
- Training for you and your management team;
- Research and development of new products and services;
- Headquarters and field support;
- Initial and continuing marketing and advertising.

- **Advantages:**
  - It offers the right to use a well-known mark on the market;
  - It can provide training programs in which franchisees are trained how to run their business, programs that allow people with no experience to enter the business;
  - The lower initial investment could increase the possibility of earning profits faster;
  - Offers a series of benefits which arise from the franchisor's advertisement;
  - Offers financial support and a series of benefits over the activity of management and marketing for the franchisee;
  - It provides technical and managerial assistance as the franchisor's earnings depend on the success of the franchisee's business by supporting it in all its activities.

- **Disadvantages:**
  - The loss of independence by the franchisee;
  - The franchise implies a limitation of rights for the creative entrepreneur and eager to innovate;
  - Difficulties in selling the franchise, because the franchisee has no rights to sell it without the franchisor's permission;
  - Expansion restrictions and business development;
  - The high franchise costs(the initial cost and the annual cost).

➢ **Startup costs for the most influential enterprises in the world:**

- McDonald's | startup costs in 2019, at least $995,900 (36,368 Locations in 2015)
- 2. Subway (sandwiches and salads) | startup costs $116,600 – $263,150 (41,916 locations worldwide in 2015).
- Pinkberry (frozen yogurts) | startup costs $ 310,000 - $ 615000(the franchise fee is reported to be $35,000)
- Wendy's (restaurant) | startup costs $ 2 million (the franchise fee is reported to be $40,000)
- Domino's (pizza) | startup costs in 2019 the franchise fee is $ 250,000.
- Pizza Hut (restaurant chain) | startup costs between $1.3 million to $3 million, franchise fee $25,000.
- Dunkin' Donuts | startup costs in 2019 $228,621 – $1,692,314; franchise fee $40,000-$90,000.
- Taco Bell (restaurant) | startup costs between $1.2 million-$2,5 million, franchise fee $40,000;
- KFC | startup fee between $1,5-$2,5 million, franchise fee $45,000

- **Franchises from Republic of Moldova that are sold abroad:**

Tucano Coffee is one of the restaurants that have been created in Moldova and that are now sold in many other countries. Now Tucano Coffee has 21 coffee shops located in 5 countries of the world. They have planned to open coffee shops in Cyprus, Germany and UK until the end of 2018.

- Numbers and work conditions
- 4,4% Royalty from income
- 12 000 euros (Franchise fee per shop)
- 2.5-3 years (return on investment)
- 1% from income(Marketing fee)
- 3000-12000 euros monthly(net profit of one coffee shop after all payments, including taxes);
- Length of franchise agreement is 10 years (with the possibility to extend the period)
- 120 m^2(average area of a coffee shop)
- Tucano supports its partners with:
- Assistance in choosing the right premises;
- Interior design;
- Personnel training. Online trainings with regular attestation;
- Consultations on all the questions;
- Marketing plan adaptation by regions.
- Weekly process control in order to improve quality (as secret guests, expert reviews, online guest surveys).

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