

Global Entrepreneurship-Franchising

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Emerging Markets Defined

Czinkota and Ronkainen (1997) identified three characteristics associated with an emerging economy:

Level of Economic Development

- The level of economic development is typically measured in terms of GDP (Gross Domestic Products) per capita. GDP per capita is a useful measure of economic development because it is related to the population's wealth, extent of middle class, and level of industrial and service sector development (Alon & McKee, 1999).

Economic Growth

- When dealing with emerging markets, it is important to adjust GDP per capita to purchasing power parity (PPP) in order to gauge income in relation to the “real” cost of living (Arnold & Quelch, 1998).
- Economic growth is usually measured in terms of the country's GDP growth rate. The usage of economic growth is consistent with the concept of “emerging.” Most of the countries referred to as emerging markets have enjoyed GDP growth rates exceeding five percent from 1990 to 1997, with some markets, particularly in East Asia, displaying double-digit growth rates (Czinkota & Ronkainen, 1997).
- The level of economic growth is among the most important consideration for international franchising expansion (Alon & McKee, 1999)

Market Governance

- Market governance includes the extent of free market, government control of key resources, stability of the market system and the regulatory environment.
- Among the most important of the elements of transition, with respect to international investors, are the political and economic risks that are introduced by the reorganization of economic and political units in the emerging marketplace (Czinkota & Ronkainen, 1997).

Franchising -Practice and Theory Development

- Why has franchising had such an impact internationally?
- What forms has franchising taken in different parts of the world?
- Models are beginning to be developed in international franchising.
 - Thompson and Merrilees (2001) examined marketing through a modular approach to branding and operations for international retail franchising systems.
 - Other authors cite that new symbiotic relationships are created when franchising expands into developing countries.
 - Franchising allows firms to achieve the expanded reach and efficiencies associated with internationalization more rapidly and effectively than the firms could achieve on their own.

Central and Eastern Europe

- Swerdlow, Roehl, and Welsh (2001), and Alon and Banai (2001), in their respective articles, “Hospitality Franchising in Russia for the 21st Century: Issues, Strategies, and Challenges,” and “ Franchising Opportunities and Threats in Russia,” gave us an historical review of franchise development in Russia as well as a current and future look at the prospects for franchise development in an area of the world that is barely realizing its full potential as a economic power.
- Skip Swerdlow and Dianne Welsh, along with co-authors, published a number of articles in the early 1990s examining franchising in the former U.S.S.R. (Swerdlow & Bushmarin, 1994; Welsh & Swerdlow, 1991,1993). Christy and Haftel (1993) published the only case study on franchising in Russia in the early era, Pizza Hut entering the Moscow market.
- Aneta Nediakova (2001) specifically examined franchising opportunities in Bulgaria, with a focus on the macroeconomic factors of the Bulgarian economy associated with franchising.
 - While international investors have been developing franchises in Bulgaria for over twenty-five years, the market has remained sluggish, given the government system and bureaucracy.
- Ljiljana Viducic (2001) described the two types of franchise arrangements that are prevalent in Croatia, using the examples of McDonald’s and Diner’s Club.
 - Primarily, franchising has taken the form of several corporate facilities in operation, where local interaction with the store is limited to employment, not ownership, and the second form where an entrepreneur is taken on as a franchise holder with the understanding that his capital involvement will increase over time as well as his ownership interest as a full franchisee.
- Current conditions, features, and trends in Slovenian franchising is analyzed empirically in an article by Pavlin (2001).
 - Using the definition of franchising adopted by the European Franchise Federation (EFF), there are over forty operating franchise systems in Slovenia currently. He compares these results to studies he conducted on Slovenian franchising that were published in 1998 and 2000.
- Kazakhstan has approximately 35,000 franchised outlets. Akhmetov and Raiskhanova (2001), described franchising from an institutional context and a development perspective, then discussed the economic condition of the country and the reforms that have been established by the government that will enhance business development.

Mexico and South America

- Teegan (2001) examined foreign expansion and market entry from three different perspectives.
 - The first perspective is that of the Mexican franchisee that might purchase the rights to a U.S. based franchise.
 - The second perspective is that of the U.S. franchisor that might sell the rights to their business format.
 - The third perspective is that of the host government, namely Mexico, in terms of the economic impact and development within their country.
- Welsh and Falbe (2001) updated their study that was the first to examine the effect, if any, of the North American Free Trade Agreement (NAFTA) on franchisor perceptions of characteristics associated with franchisee success and failure in Canada, Mexico, and the United States (Falbe & Welsh, 1998).
- The original research addressed two key issues in franchising.
 - The first was the extent the study of franchisee success and failure by analyzing franchise executives' perceptions of the importance of a number of characteristics associated with franchisee success and failure.
 - Second was to examine differences among the executives' perceptions of these characteristics based on the location of the franchisor-Canada, Mexico, or the United States.
 - Their study found that the respondents' perceptions of the importance of system quality, brand name, local environment and communication, and other scales of franchisor and franchisee activities differed by country of origin. Additionally, results of the study showed that neither business type or franchise size had any effect on perceptions of success or failure.
- Josias and McIntyre published the first article examining franchising in Brazil in 1995. In 2001, McIntyre gave us an update on what is now third largest franchising market in the world and described what is unique about Brazilian franchising, and gave her view of the country's prospects for the future franchise market. McIntyre views Brazilian franchising is ripe for development, as evidenced by the size of the domestic franchise industry, demographics of the population, and current economic conditions.

Singapore, Malaysia and Hong Kong

- Researchers began publishing articles on franchising in Asia in 1995. Mark Goh (2001), assessed Singapore's franchise industry by presenting the results from two surveys, one conducted in 1995 and another in 1999. The first survey was mailed to 62 franchisors and found that most were engaged in mass market franchising. A second survey of 140 existing and potential franchisors was conducted in 1999 by the Singapore government. At least half of those responding already had franchises operating in other countries, particularly Southeast Asia, but also in the Middle East and Africa. The author summarized the opportunities and difficulties a franchisor may face when entering Singapore.
- McCosker (1996) reported on a survey of foreign franchises that desired to enter into the Asian markets of Singapore, Malaysia, Hong Kong, and Indonesia. He gathered information from the existing literature as well as franchisors that had already entered these markets and interviews during visits to those countries. Chan, Foo, Quek, and Justis (1994) published an article that reported on a survey that identified the major franchises that existed, the different types of franchises, and the nature and characteristics of franchise agreements in Singapore.
- English and Xau (1994) explored franchising in China by reporting on the entrance and subsequent experiences of two U.S.-based franchises into that country: Kentucky Fried Chicken (KFC) and McDonald's. **They found that the primary difference that will be experienced by franchisors entering the Chinese market is that the government will be the franchisee.** They still believe that the rewards for franchising in China are there, and that patience will be rewarded. In 1995, Chan and Justis looked at franchising in Indonesia by investigating the climate for franchising and the perceptions of the Indonesian people toward franchising.

China -The greatest potential growth of all markets until recently

- Three authors from the Department of Hotel and Tourism Management at the Hong Kong Polytechnic University discussed the rapid expansion of the franchised hotel industry in China and the opportunities that exist for further development (Pine, Zhang, & Qi, 2001). From 1979 to 1999, the number of hotels in China has grown from zero to 7035.
- The authors related their understanding of China's cultural, economic, and political background that are essential for success in this market. Wilke English, from the United States, teamed up with one of his Chinese students to look at two prominent franchises that entered China early on: KFC and McDonald's. The authors have an update from the early beginning of franchising in 1994, when these franchises were in a joint venture arrangement with the Chinese government basically as the "franchisee." His "Y2K Update" looked at these two systems, which now have about three hundred outlets in China. Particularly interesting is the lack of competition these two chains have encountered in China. The author also covered the recent legislation that has been passed in China that contains a similar legal structure to franchising in the United States. This makes franchising much more inviting for potential franchisors to enter this vast and expansive market. With the help of Ilan Alon, Rollins University, who collected the Y2K data, Wilke English compiled price comparisons in dollars and in yuan of the McDonald's menu items as of 1993 and 2000 compared to Belton, Texas (the author's residence).
- Anna Han (2001) expanded on these legal issues effecting franchising in China. She pointed out the many market segments and diverse populations that are in China that makes the market interesting as well as challenging for the franchisor. She examined China's franchising measures, how they are defined, and what must be included in franchise agreements to be in full compliance with China's contract law. Intellectual property rights and how they should be protected are also covered. She related that particular care must be given to the selection of Chinese trade names and marks that accompany patents, trademarks, trade names, copyrights, trade secrets, and domain names. She also examined in detail all the laws that franchisors must comply with, including labor laws, land use regulations, and tax laws that are in addition to specific laws governing franchising. Dispute resolution, arbitration, and litigation alternatives in franchise agreements and how they are enforced in the Chinese Court of Law are explicated.

China contd.

- Ilan Alon (2001) interviewed a Chinese beauty parlor franchisor in Shanghai that took place in July of 2000. He uses a standardized interview instrument that consisted on 23 questions concerning ownership, franchising, and strategic marketing. Six major findings that are helpful to understanding the state of franchising and business development in China emerged and are summarized in the article: 38% of the franchisor's outlets are in Shanghai, all of the parent stores are in downtown Shanghai, 56% of the outlets in Shanghai are owned by the franchisor, the start-up costs are around \$20,000, the franchisor relies on tie-in sales instead of royalties for ongoing income, and the company prefers to own the most profitable locations. S.R. Nair (2001), who owns an U.S.-based company engaged in joint ventures in China, gave us an overview of franchising in China from the perspective of a franchisee. The author painted a picture of the country as it exists today, and how it has transformed. He also explored the advantages and disadvantages of franchising in China, the pros and cons of direct and indirect franchising, and the types of opportunities available for foreign firms to invest and establish a foothold in this gigantic market.
- Richard Hoon (2001), who is responsible for seventeen countries in Asia with Management Recruiters International (MRI), discussed the history of business development since 1992, when the Chinese government announced the decision to reform the economy through decentralization efforts. This was the beginning of many reforms aimed at privatizing state enterprises. Mr. Hoon examined the problems these early franchise pioneers encountered, the state of business today, and his personal experiences opening professional service franchises in this new marketplace.

India

- India is a country with a huge potential for franchising growth.
 - It is estimated that the current market in India is approximately USD one billion, and has a growth rate per annum of 30 percent.
- While many franchises have already begun in India, the country is still in the beginning stage of franchising. Paswan and Dant's 1995 study looked at the definitions of franchising by native Indians and compared it to the American concepts of franchising. They offered the first framework for franchising in India.
- Paswan, Dant, and Young (2001), covered some prospects and caveats for entering this market as a franchisor. Dant and Kaufmann (2001) gave a descriptive account is given from a 2000 survey of franchisors in the Delhi area.
 - The data is divided into six major categories of findings, that include the distribution by sectors, scope and ownership patterns, system age and size, franchisee selection, financial arrangements, and operating procedures.
 - The authors compared and contrasted these findings to the technology-based franchise systems that are prevalent in the Delhi area and are considered by some as the future of franchising in India.
- Paswan, Young, and Kantamneni (2001), contrasted the other articles by concentrating on the Indian people's opinions of franchising. The results indicated that there are six major dimensions potential customers use to evaluate a franchise.
 - They are macro- and socio-economic concerns, social well being, individual well being, consumer benefits, quality improvement, and localized development.
 - Paswan, Young, and Kantamneni (2001), urged further research in emerging markets to also look at the customer side, as well as the franchisor and franchisee sides of the equation, when evaluating potential markets.

The Middle East

- Khan and Khan (2001), specifically analyzed the restaurant industry in the Middle East, concentrating on the major trends and success factors related to franchising.
 - The authors emphasized the political and legal considerations, language, culture and traditions, menu items and service, demographic and economic changes, and availability of resources that must be taken into consideration when entering this market.
 - The authors included a table of twenty-two countries that is differentiated by area, population, annual population growth, and GDP.
 - Additionally, handy assessment checklists are included that can be utilized by franchisors considering entering a new market.
- Raven, two former students, and Welsh presented cases on Starbucks Coffee International and Mercedes Benz in Kuwait (Welsh, Raven, & Al-Bisher, 1996).
 - The latter is a real event that transcribed while the Kuwaiti student worked at his family's dealership.
 - The Starbucks article was written in 1996 before Starbucks actually entered this market and is quite forward thinking. Interestingly, as predicted in the original article, Starbucks opened its first outlet in Sharq, Kuwait in 1999, and it has become one of its most profitable stores in the entire region.
 - Both articles give excellent insights into the country, the region, the culture, and its people due to the collaboration between the academic authors and the native Kuwaitis.

North America

- Franchising began in the United States in the 1850s with the Singer Sewing Machine Company. One of the most famous beginning franchisors was Henry Ford, who figured out the value of franchise systems to distribute cars quickly to yearning first-time car buyers while not being encumbered with the cost of inventory. Today, franchising encompasses a system that is used around the world to sell over one trillion dollars worth of goods and services from Tokyo to New York (Reynolds, 2002). Franchising is powerful. Franchising is here to stay.
- Welsh looked at franchising from a futuristic perspective in her 2002 article, examining where franchising has been in the 1970s, 1980s, and 1990s in the United States and Canada and where it is headed.
 - Currently, franchising is 40 percent of retail trade in the US and 25 percent in Canada (Fenwick, 2001; Scrivener, 2001).
 - In the article, She covered the definitions of franchising, regulations, survival rates, recent developments and future trends. One trend identified is the focus on self-reliance. Young people want higher income, job security, and self-satisfaction that come with owning their own business or franchise. This will effect franchising growth positively, especially for women and minorities internationally.
- John Clarkin (2002) examined the differences in expansion strategies among more than 1200 North American franchises. International market development is continuing to be increasingly important.
 - The study examines two major issues: the differences in size, age, and other characteristics between those pursuing international expansion and those not, and the possible motivations for international expansion.
 - The study found similar results to a study done 27 years earlier that found opportunity recognition as more important motivator for international expansion than market saturation. He explained the reasons for the findings and their implications.

Multi-Unit and Master Franchising

- Marko Grunhagen and Robert Mittelstaedt (2002), one of the founders of the International Society of Franchising, gave us a historical synopsis of franchising, and then look at the state of the franchise industry and recent developments that have spurred its growth and expansion. They described new industry segments that have emerged, including franchisees' mini-chains that cross states and regions. They also discussed the reasons behind the astronomical growth of multi-unit franchising from the franchisor as well as the franchisee perspectives. The major advantages usually cited to franchise are explicated, with the authors giving some new reasons not previously considered. Grunhagen and Mittelstaedt also looked at the motivations of multi-unit franchisees, which may be different than the usual explanations given for franchising. The literature gave three reasons why individuals franchise: single unit franchisees are so eager to get into business for themselves that they become risk indifferent, multi-unit operators believe they can "beat the system" by the advantages of a larger and more geographically dispersed locations, and franchisees aren't entrepreneurs so they need the system franchising has built-in. The authors argued that entrepreneurship is an important motivator for multi-unit franchisee ownership. The article adds to the body of literature by addressing franchisee motivations, and that entrepreneurship is a reasonable explanation for the growth of multi-unit franchising.
- In his article, "The Organizational Determinants of Master International Franchising," Ilan Alon (2000) first defined and explained why master franchising is such a popular form for global expansion. He then goes on to develop a group of propositions as to the impact of certain organizational variables on the use of master franchise agreements overseas. These types of agreements are primarily used for business format franchisors. He divides the factors into three explanations: resource-based, knowledge-based, and strategy based. The resource-based explanation looks at size, age, and brand-name asset specificity. The knowledge-based explanations include know-how and experience in managing global operations. Price, product, and strategies are given as strategy-based reasons. These explanations should be examined before a franchisor enters a host country and decides the level of risk that he/she is able to tolerate. Ilan Alon gave a theoretical framework for global expansion that can be added to that is sorely needed in the field.
- Somchanok Coompanthu and Kendall Roth's 2002 study focused on international services and explores the various organizational forms that are possible and their impact on profitability. In particular, the article focused on the use of plural management. Plural management can be defined as using a combination of company-owned or company-operated, and franchised forms. Unit growth, uniformity, local responsiveness, and system-wide adaptation are all effected by the use of plural management. It was found that when there is high performance ambiguity, or when it is difficult to determine employee job performance, firms are more likely to use franchised forms for international expansion. When there is a great deal of outcome uncertainty, company-owned/operated forms are more likely. The authors urged franchisors to look at the nature of the industry and the organizational forms that have worked best to achieve a higher performance level in the future. Plural management is offered as a strategic solution to the problems of achieving tight control if there is high performance ambiguity and the need to respond effectively to local markets.

North America contd.

- M. Krishna Erramilli, Sanjeev Agarwal, and Chekitan Dev (2002) also looked at global entry modes in the service industry.
 - However, the article focused on non-equity modes of entry that feature minimal or no investment requirements. In particular, these non-equity modes are popular among consumer-services firms, such as hotels and restaurants.
 - Professional-services firms, for example, consulting businesses, rarely use this form.
 - The study looks at the reasons for choosing between two non-equity modes: franchising and management service contracts. The article took the perspective that the form that most effectively transfers organizational capabilities is the form that should be adopted rather than the one that provides the most effective control over the subsidiary. The latter is most recommended by international business theories.
 - An international sample of hotel firms was used to find that capabilities that are difficult to imitate cannot be effectively transferred through franchising. In such cases, a management-service contract was preferable. Infrastructure was found to be critical to the type of mode chosen and the success of the franchise.
 - Additionally, the level of development of the country had an effect. In countries where customers are more service conscious, and there is an ample supply of talented managers and investors, franchising worked better.
 - The authors warned that firms focus mostly on the transfer characteristics of their business when making these modal decisions. If they are not perfectly imitable, there will be problems with franchising, and more calling for management-service contracts.

Global Franchise Relationships

- Jorg Sydow (2002) examined the service sector also, but looks at network leadership. He argued that strategically franchise systems need to link to inter-organizational networks and be more relationship oriented. He also covered the management practices that are necessary for this to happen and anchors his recommendations in the theories that have been developed on structure.
 - He illustrated the application of this theory with six business format franchise networks in Germany: McDonald's (fast food restaurants), OBI (retail superstores), Aufina (real estate agencies), Schulerhilfe (tutoring providers), ComputerLand (retail sales and computer services), and Hyper Services (service providers). Jorg Sydow offered concrete suggestions for the industry to follow, as well as implications for management that have global applications.
- In the article, “International Growth of US Franchising: Cultural and Legal Barriers”, Charles Keith Hawkes and Soumava Bandyopadhyay (2002) built a framework that examined the cultural and legal barriers that American franchisors could face as they globally expand. Their framework is built on two dimensions: the cultural distance of the market from the United States, and the extent of legal barriers in the market.
 - Strategies that should be taken by the franchisor given these barriers are explicated.
 - For example, Italy and Spain have many legal barriers but are culturally close so the business format needs adapted more.
 - In Japan, there are fewer legal barriers but are culturally distant so more product adaptation should occur.
 - In the Gulf Region (Middle East), a great deal of adaptation of the product and the business format would be necessary because many legal barriers exist in these countries and they are culturally distant.
 - In all, this article offered practical advice that is easily understood and implemented.

The United States

- Fred DeLuca (2002) created the second largest franchise operation in the world when he created Subway. In North America, they just surpassed McDonald's with the most number of locations.
 - With Annie Smith and Les Winograd, Fred told his story of how Subway conquered America and then spread world-wide. It all began in 1965 and, in 2002 has more than 16,000 franchised restaurants in 74 countries. The article covered the management challenges facing the franchise as it has expanded globally, as well as a summary of its growth in certain counties, including Australia, Venezuela, India, and China. The article concludes with a summary of future endeavors on the horizon.
- Ilan Alon (2002) in his article, "The Organizational Factors of US International Franchising: A Comparative Study of Retailing, Hotels, and Professional Business Services," analyzed how these industries have expanded globally through the number of outlets, including size and scale, the growth rate, the pricing strategy, and the geographical dispersion.
 - These factors aid in explaining why franchisors have gone global. However, there are differences between the three industries that are discussed. For instance, the age of the franchise was an insignificant for the hotel and professional business service categories, and had a negative relationship to internationalize in the retailing sector. One of the most interesting findings of the study involved the fact that younger franchisors in the retail sector were more likely to franchise. Ilan Alon provided clear evidence that the decision to go international should be studied at the industry level. This study cleared the way for the development of a complete model of internationalization that is sorely needed by the franchise industry to make better decisions on where, when, and why to go global.

Canada

- With a population of 30 million and its close proximity and culture, Canada oftentimes is the first stop for US franchisors to expand internationally.
- Paul Jones and Michelle Wong (2002) described the current state of the Canadian market, including currency, banking, legislation at the federal and province levels, and regulations.
 - Additionally, the authors discussed the numerous factors to consider in adapting franchise agreements to the Canadian market, in particular, the enforcement of contracts from one province to the next.
 - Two provinces have their own franchise legislation-Alberta and Ontario.
 - Canada has followed the lead of the European Union and enacted the Personal Information Protection and Electronic Documents Act which protects all personal information in the private sector collected in the course of commercial activities by companies.
 - Quebec has had such legislation in place since 1994, while Ontario has prepared a draft of its own privacy legislation and two other provinces are in the process of doing the same.
 - In 2004, the federal legislation will extend to the provinces that have not passed their own legislation concerning privacy.
- In all, Jones and Wong’s article comprehensively covered all basic aspects of what a franchisor needs to know to enter the market. It would benefit potential and existing franchisees to read the article as well to get a total understanding of the entire franchise system in Canada.

The Pacific Rim

- This vast area of the world is an open door to franchisors looking for densely populated consumer markets that are receptive to new opportunities.
- Despite the critics misgivings, Western fast food chains first entered East Asian markets with a great deal of success.
- Kentucky Fried Chicken (KFC) average sales per store in Asia are US \$1.2 million, compared to per store revenues in the United States of \$750,000.
- Stephen Choo (2002) chose three franchisors with different capabilities and levels of internationalization to illustrate the critical success factors needed to enter the East Asian market.
 - Dome Coffees from Australia,
 - The Coffee Bean & Tea Leaf Company from the United States and
 - Royal Copenhagen Ice Cream from Australia
 - They are qualitatively analyzed using the techniques of Yin (1994), and Miles and Huberman (1994).
 - Results showed that there were six main key success factors in the East Asian market: distance management, contract enforcement, cultural adaptability, host country risk management, marketing approach, and partnership management.
 - The greater the cultural differences between the franchisor and franchisees in East Asia, the more important these success factors become in transferring a profitable franchise system.
 - Choo made a significant contribution in providing any potential or current franchisor a useful insight into approaching and competing successfully in this market.

Japan

- Nitin Sanghavi in his article, “Franchising as a Growth Strategy in the Japanese Retail Market,” (2002) reviewed the opportunities and challenges for companies to use franchising as a growth strategy in the Japanese market. He covered the recent developments in the Japanese and retail consumer markets, the effect of the stock market, and what it will take to be profitable in this densely populated country.
- Compared to other industries, franchising has done relatively well, maintaining a growth rate of six to eight percent. In terms of number of stores, service-related franchises showed the most growth, although sales per store were not as significant as food services or retail commerce franchises. Seventy percent of the total increase in sales of the franchise industry as a whole was in retail commerce franchises.
- The author engaged the reader to understand the effect of various business customs and lifestyle trends on franchise success in Japan and how the franchise should include these factors in its overall business strategy and structure to be successful.

Australia

- Lorelle Frazer (2002) explained the franchise market on this unique continent that is regarded as a leader in franchise practices. The current legislation on franchising dates back to 1998. Overall, their Franchising Code of Conduct has been declared effective in making franchising more professional and growth in franchising has occurred since it was passed.
- There are approximately 700 business format franchisors in Australia. In fact, Australia has more franchisors per capita than the United States. There are about 51,100 franchise units in the country, which has expanded steadily despite much industry consolidation. There are a median of 24 franchise units per system so there is still the potential for expansion in this country.
- Frazer gives us an optimistic view of the future of franchising in Australia.

New Zealand

- Franchising in New Zealand has grown exponentially in the past five years.
- John Paynter (2002) summarized the history of franchising and the results of the annual survey of the Franchise Association of New Zealand. A total of 111 systems are analyzed in terms of the number currently operating in the country, the number of people employed, the number of franchised and company-owned units, the percentage increase in sales growth, the industry groupings by percentage, the number of native franchise operations, the median start-up costs, among other statistics. Of particular interest are his results of the number of systems that have websites (84%), and the failure rate data. Over a three-year period, only six percent failed and a miniscule sixteen percent of franchisors (six percent of franchisees) considered franchising to not be a good return on their investment. A hardy 77% rated their system excellent or above average. These results are good news for the industry.
- Leo Paul Dana (2002) encapsulated the New Zealand franchise market, which has the highest number of franchises per capita. Additionally, three quarters of these are New Zealand-based franchisors. Foreign franchisors are primarily from Australia. Dana gave us a detailed description of both as well as possible legislation that may be enacted in the future. New Zealand currently does not have any franchise legislation, but may enact similar legislation in the future that mirrors the one passed in July of 1998 in Australia.
- He also discusses initiatives that the government should consider to aide in franchise development as well as future challenges to the industry. In particular, Dana identified that future research should explore why New Zealand franchisors tend not to expand globally.

Israel

- Leo Paul Dana (2002) analyzed the current state of franchising in Israel, explains why franchising has gained popularity quickly, and the reasons for its accelerated growth in his article, “Israel’s Experience with Franchising.”
- He gave two basic reasons for this phenomenon.
 - First, Israel is a country composed of many immigrants. In the 1990s, there were a million new immigrants.
 - Secondly, thousands of defense military personnel retired in their early forties with a lump sum payment from the government of \$250,000 and were looking for investment opportunities.
 - Many bought franchises. That has fueled the growth of home-grown franchises in banking, financial services, fashion, and fast food.
 - Interestingly enough, Israeli franchisors have not ventured abroad to a great extent with a couple of notable exceptions. Burger Ranch has done well entering the Hungarian and Romanian markets, while Reliable Rent a Car has done well expanding into the Mediterranean region-Cyprus, Egypt, Italy, Malta, Portugal, Spain, and Turkey.
- He also summarized the legal environment in Israel and what he sees as possible franchise legislation and protection in the future.

South Africa

- Scholtz in his 1996 and 1997 articles, described the state and penetration of franchising as a form of business in South Africa. He included an overview of the environment for franchising, the population, and the legal regulations concerning franchising. In 1997, he reported that there were 170 franchise systems and 6,00 outlets operating in the country and that the market was ripe for more entry of international franchises.
- Anita du Toit's (2002) study of franchising in South Africa focused on the issue of encroachment in multi-brand franchises with the use of in-depth interviews of franchisors who had operated a business format franchise and had two or more franchised brands. About ten percent of the franchisors in South Africa met the criteria. Qualitative analysis with the use of themes to give a larger, consolidated picture was utilized following the suggestions of Creswell (1994).
 - Eight themes emerged and are described in detail in the article: brand management systems, achieving economies of scale, brand positioning, cultural divergence, conflict between stakeholders, policies on geographical proximity, failure of acquisitions, and separation of brands. Du Toit concluded by making recommendations for future research based on her results, and theorized that perhaps multi-brand franchises may not be able to be managed successfully to avoid encroachment.
 - She also included some great recommendations that, if incorporated, would improve brand management of multi-brand franchises and assist in avoiding encroachment problems, a good suggestions wherever the franchise is located world-wide.

Europe

- Most of the world's international business, trade, and investment occur among three regional markets, Europe, North America, and Asia, also known as the Triad.
- Rugman (2001) advanced the thesis that globalism – the existence of a single market unified by economic and political forces – is a myth; triad-based international business is the past, present and future reality of international trade. More profound is the fact that most trade occurs within the triad. For example: 90% of all cars produced in Europe are sold in Europe and over 60% of EU countries' export go to other EU countries. Rugman's research also suggests that national governments regulate most service sectors, limiting market forces, and that business needs to: *think regional, act local, and forget global* (Rugman, 2001, p. 11).
- In Europe, the European Union (EU) is the central economic organization that drives the region, the world's largest economic superpower, a huge consumer market of 370 million people, and a union of 15 nations that continues to attract prospective members. The European Union is the world's leading exporter – with a total value of \$814 billion, 20% of the world's trade volume – and the second largest importer (Wright, 2000). The Euro, the official currency of the EU, was so far shown to be stable, convertible, and increasingly an internationally viable alternative to the US dollar for business transactions and central bank operations.
- **(Professors note: We will update this material in the section on Europe later)**

Europe contd.

- While economically many of the European countries are integrated, the history, language, and culture of individual countries are unique. The plurality of cultures and languages in the Europe makes complete standardization more difficult, if not impossible, for franchising systems. For example, a consistent image and a single brand formula can fail abroad as Eddie Bauer, Marks and Spencer, and Wal-Mart can attest.
- A study of more than 1,500 consumers and 40 retail grocery and clothing brands in France, Germany and the UK found appreciable differences in buyers' motivations.
 - The French wanted service and quality;
 - the British wanted affinity; and
 - the Germans desired price/value. As such, in Germany discount-food market accounts for 32%, compared with 8% in France.
 - Thus, companies need to adjust their product offering, pricing, brand image, or service and tailor their image at the national level (Child, Heywood, & Kliger, 2002).
 - The European market is much more heterogeneous than the U.S., and a careful strategy of adjusting the franchising concept to national differences is advisable.
- In the section that follows, the franchising conditions in 12 European countries are reviewed. Table 2 provides some descriptive statistics for these countries taken from the International Franchise Association's website. According to the statistics, these countries account for over 347 million consumers with an average GDP per capita exceeding \$24,500 with a combined market of about \$7.8 trillion. Additionally, franchising in Belgium, Ireland, Netherlands, and Sweden is covered.
- **(Professors note: For updated information please visit my Chapter on Generational Change and the Chapters on each region.)**

Franchising in Europe Overview

- Stanworth and Purdy (2002) gave a review of the European markets from the perspective of UK franchisors and discussed the expansion plans of British franchisors to penetrate the markets of the European Union.
 - Forty-one percent of their sample claimed to either operate in another European country or plan to become active in the EU shortly.
 - Stanworth and Purdy suggested that companies aspiring for international expansion may underestimate the real cost of expansion, need to develop linguistic skills, and plan to develop some company-owned outlets, if they want to emulate what the UK international franchisors are already doing.
 - The EU markets can be ranked by the number of franchisors in descending order: Spain, Germany, UK, France, Italy, Portugal, Netherlands, Sweden, Austria, Greece, Belgium, Ireland, Denmark, and Finland.
- Mendelsohn (2002) reviewed the comparative legal environment for franchising in Europe, discussing the European Commission regulations relating to franchising and a number of key franchising cases heard before the European Court of Justice – including Yves Rocher, Computerland, Pronuptia, ServiceMaster, and Chales Jourdan.
 - The assertion in these cases is that the market sharing arrangements inherent in franchising may violate EC competition law.
 - The legal environments of franchising are examined in nine countries: Austria, Belgium, Finland, Germany, Italy, Netherlands, Portugal, Spain, Switzerland, and the United Kingdom.
- Sherman (2002) offered final suggestions to European franchisors wishing to internationalize their operations by discussing key trends. While international franchising has been mostly US led, European franchisors are expanding overseas in increasing numbers. Sherman advised European franchisors wishing to expand into the United States to thoroughly understand their strengths and weaknesses, potential target markets, partners, trademarks, products and services, company resources, and rationale for expansion.
- Two international franchising lawyers, Mazero and Martyn (2002a, 2002b), provided an analysis and a checklist for due diligence in international franchising. This topic is increasing in importance because of new requirements and renewed focus on money laundering, corruption, and terrorism internationally.
 - The authors advised franchisors to investigate prospective franchisees thoroughly by reviewing prospective franchisees publicity, credit history, corporate affiliations, civil and criminal reports, real property, bankruptcy records, liens and judgments, and regulatory authorities.

Europe Overview contd.

- Unlike the US, Europe is much more cosmopolitan, consisting of a variety of nations and cultures with differing and often conflicting histories. The European franchisors have one distinct advantage over American franchisors in Europe. They are often multi-lingual and they understand the cultural variations within their markets better than Americans. American franchisors' transaction costs can be high in terms of translating materials, adapting manuals, brochures and advertising, overcoming cultural and geographical distance, and controlling local operations.
- American franchisors should ask themselves the following questions. Can the company's core competency and brand travel? Are the company's abilities and know-how valued in foreign cultures? Are there economies-of-scale or first-to-market advantages in entering the European market? Are there entrenched competitors with more acceptable brand recognition? What adjustments do they need to make to the standard formula? The answers to these questions lie in franchisors' ability to recognize opportunities and threats in the environment and strengths and weaknesses in their organization.
- The implications of cultural and environmental diversity to franchisors wishing to do business in Europe is twofold:
 - (1) franchisors need to adapt their franchising concept and management style to local cultures, and
 - (2) franchisors need to find ways to cooperate with local partners and governments to promote entry into a variety of service sectors that are sometimes restricted or regulated. Such cooperation can happen if the two sides understand the benefits and limitations of franchising as they relate to the host market economic and social goals and needs.

Austria, Denmark, and Finland

Austria

- No special franchising law exists in Austria and franchise agreements typically fall under the civil law which regulates contracts, consumer protection, competition, and intellectual property. Austrian and European antitrust regulations are important determinants of case law. Details on applicable laws of franchising in Austria are given by Marco Hero in his 2002 article.

Denmark

- Sanghavi (2002) discussed retail franchising in Denmark. Denmark is one of the most affluent members of the EU, and franchising has much potential there. The chapter reviewed the franchising development in the country, the infrastructure and legal environment, the franchising market, the financial environment, and the marketing environment. As an appendix to the article and a reference to the reader, the author attaches the European Code of Ethics for Franchising to which Denmark subscribes. The paper concluded that opportunities for retail franchising in Denmark abound.

Finland

- Tuunanen (2002) presented and analyzed data on franchisors in Finland from 1999 to 2002. His research indicated that there are 164 franchisors in Finland, employing 38,000 people, and generating a gross annual sales of about \$3.25 billion. Tuunanen reviewed the key definitions of franchising, created a framework for identifying business format franchising in Finland, and collected and analyzed the data with a variety of methods.
- While Tuunanen's analysis provided a franchisor perspective, Torikka and Tuunanen (2002) examined franchisee-training programs. In Finland, the government participates in the education of franchisees through economic development centers. In recent years, a number of programs have emerged to train current and prospective franchisees. Torikka and Tuunanen evaluated the effectiveness of these programs by describing careers shifts of the trainees. They report the results from a sample of 100 graduates of the first five programs and found that one-sixth bought a franchise. These results showed that government agencies can promote franchising and economic development through focused educational programs. These programs had a major effect on the success rate of the trainees.

France

- Penard, Raynaud, and Saussier (2002) presented an overview of franchising in France, with detailed statistics and discussed the current legal environment.
 - The authors found that franchisors in France attempt to establish a balance between company-owned stores and franchisee-owned stores, and that this balance is sector specific. Furthermore, domestic franchisors charge higher royalties as compared to foreign franchisors, which often require fixed fees.
- Cliquet and Perrigot (2002a) answered the call of Penard, Raynaud, and Saussier for industry-specific franchising research. They examined variations to franchising in French hotel chains.
 - Half of the chains have at least 15 percent franchisee ownership. Dual distribution, using both company-owned and franchisee-owned outlets, simultaneously has accelerated the growth of the French hotel sector, ensured territories are adequately covered, lowered the financial burdens of expansion, and maintained control over operations and renovations. Plural forms of organization stimulated competition among members of the organization (multi-unit franchisees, franchisees, and company-operated units), and provided operational flexibility to adjust to economic cycles and changing client behavior or legislative guidelines.
 - Drawbacks to this system included most notably the possibility of network conflict, particularly between the company-owned outlets and the franchisee-owned outlets, which sometime compete directly with one another. Multiple-unit franchising are growing rapidly in France.
- Perrigot and Cliquet (2002b) further investigated the French hotel sector in relation to the franchising sector. This sector is motivated in part by increases in travel and tourism into France.
 - The authors examined the survival, growth and stability of French hotels for the period 1995-1998 and argued that franchisors using a dual distribution strategy or a franchising strategy are more competitive than totally company-owned hotels in the long run; and predicted that national companies will outlast foreign companies in the French hotel sector.

Germany and Italy

Germany

- Germany is the largest economy in Europe. Flohr (2002) examined the legal environment to franchising in Germany by outlining relevant laws concerning contracts, consumer protection, antitrust and competition, intellectual property, and labor. On a higher level, the EEC Block Exemption for Vertical Restraints of 1999 is discussed in the context of German franchising.
- Schlamp (2002) described franchising as it applies to women in Germany. General conditions for women in Germany, startup businesses by women, and women based businesses and their role in the economy are discussed. Franchising is seen as a way for women to mobilize their business ventures and a solution to some of the problems they face.

Italy

- Luca, Majocchi, and Pavione (2002) examined the Italian economy from a franchising perspective in detail. The authors provided a history of franchising, present conditions for growth statistics, as well as offer their thoughts on prospects for different industries.
- Vianelli's (2002) article complements Luca et al. by examining Italian franchising as a mode of entry into international markets. While Italian franchisors have limited experience with internationalization, a few have achieved considerable success, most notably the Benetton group. Positive country-of-origin effects of the *made in Italy* image has helped the Italian fashion industry gain recognition and acceptance internationally. This is evident by the presence of Italian high fashion outlets in the most exclusive streets of European capitals. About 80 Italian franchisors are presently franchising abroad. Half of the Italian franchisors overseas operate in the personal items category, which includes clothing, intimate wear, footwear and accessory type products, followed by the hotel, restoration, and household article sectors. Benetton, for example, sells most of its clothes through its international franchised outlets. Franchising has paved the way to export Italian made products. The ten largest destinations of Italian exports are Germany, France, USA, UK, Spain, Switzerland, Belgium, Netherlands, Austria and Greece. Italy mostly trades with European countries.

Greece

- Dimou and Ikkos (2002) presented the climate for franchising in Greece, the economy, business environment, and the overall profile of Greek franchising.
- Greece is a member of the European Monetary Union, and its economy improved appreciably in the 1990s.
- The retail sector was significantly restructured in the 1990s due to changes in real incomes, a substantial urbanization, and an inflow of capital from the European community.
- According to the authors, Greece has 400 franchisors with over 4,000 outlets. Greek franchisors recently have expanded into the Cyprus and the Balkan countries because of physical and cultural proximity.
- The authors provided a detailed analysis of the environmental and industry factors affecting franchising in Greece.
- Since this was written, Greece endured a near financial collapse and potential Grexit (Greek exit from the Eurozone)
 - Greece is heavily burdened with debt, has an unstable political situation, and faces an uncertain future.

Norway

- Singh (2002) described the franchising environment in Norway. Norway is an industrial, oil-rich country, with a high standard of living. Norway is not part of the European Union. As of 2002, there were 184 franchisors with a network of over 7, 253 outlets. Franchising is relatively new to Norway, but the country is making strides in developing the sector and franchising is poised for growth. The political environment in Norway is stable, labor laws and taxes are demanding on employers, and franchising enjoys no specific restrictions. Singh explained the social, economic, legal and consumer environments of franchising. She then examined franchising from the standpoint of price, promotion, and place considerations.

Portugal

- Dahab, Cunha, and Cardim (2002) discussed international franchising in Portugal. By looking into the process of McDonald's entry into the country, the authors attempted to shed light on the need for adaptation to local circumstances. They analyzed the factors leading to international franchising in Portugal, addressed the organizational structure of franchising, and present empirical evidence from the McDonald's case, which is discussed in detail.

United Kingdom

- The United Kingdom is an important international market for international franchisors. The retailing and service sectors are highly developed and about one-third of British retailing is franchised.
- Cross, Burton and Rhodes (2002) employed the transaction cost approach to franchising to explain the use of intermediaries – such as a master sub-franchisor – in international franchising development. These intermediaries are more likely to be used when the market is geographically and culturally distant, when smaller, less experienced franchisors internationalize, when markets are less developed, when larger number of foreign markets are served, and when more extensive host country operations are established. Direct franchising is more likely to occur with franchisors that have more resources and more experience in international markets. Diseconomies of scale associated with managing the franchisor-intermediary relations discourages franchisors from using intermediaries in international expansion.
- Stanworth, Brodie, Wotruba, and Purdy (2002) utilized a sample of 673 independent contractors in direct sales franchising to examine this low-cost, low-entry barrier business which attracts mostly women who are interested in part-time and self-employment opportunities. Their study looked at changes in self employment in a variety of countries (mostly European), presents a typology of direct sales franchising based on two dimensions: product/service and home-based/external premises, and compared and contrasted franchising to direct selling.
- Unlike Cross et al. (2002) and Stanworth et al. (2002) who utilized survey methodology, Quinn (2002) examined international franchising using a qualitative, ethnographic approach. This approach provided an in-depth explanation for the internationalization of one UK franchising firm from 1987 to 1995. The author explained the company's initial market entry, patterns of internationalization, and the changing nature of expansion efforts. Keys to successful international franchise expansion were new product development and aggressiveness in obtaining qualified franchisees.
- **The United Kingdom is part of the European Union but not a member of the Eurozone. Membership in the EU has also come under political fire and there is an upcoming vote on whether to withdraw from the EU.**

Conclusion

- The advent of franchising is a world-wide phenomenon. In countries around the globe, franchising affects the economy substantially and is becoming a larger percentage of the retail trade daily.
- It accounts for **\$1 trillion in retail spending** per year and employs **one out of sixteen workers** in the United States.
- In some countries, franchising is approaching half their total retail sales.
- Although franchising has its critics, and there are franchises to definitely avoid, it is here to stay. The more we know about franchising, the better off the public and the industry will be. Franchisors, franchisees, those studying franchising, the governments of countries interested in furthering economic development and employment, and the massive populations who desire the opportunity to try franchising themselves through purchasing a franchising, starting their own franchise or tasting its fare, all need this information.
- Areas ripe for future research include what various forms of franchising exist and the ability to adapt to the ever-changing global marketplace. Franchising is becoming more complex to adapt to a world marketplace that is increasingly becoming more accessible with technological advances. There are more forms of franchising, and there is an increasing symbiotic relationship among the various stakeholders of franchising: franchisors, franchisees, host markets, and consumers.
- What hasn't been addressed is the addition of franchisee associations in these symbiotic relationships and that they are becoming at least as powerful, if not more powerful in some spheres, as associations world-wide that have been traditionally composed of franchisors. These influential organizations will continue to wield an increasing share of power in the future.
- Furthermore, it is likely that such franchisor and franchisee organizations respectively will join in associations of their counterparts by region or to mirror political associations, such as the European Franchise Federation (EFF) has formed as the European Union (EU) has become a reality. In a larger part, these organizations will eventually exert a major influence on supplier networks, legislation, regulatory standards and safeguards, and shared technology and communication. They will transcend language and cultural barriers to create networks that are user-friendly.
- John Naisbitt, author of *Megatrends*, predicted that the future of franchising would benefit from an increasingly service-based economy, an increasingly convenience-oriented society, a more specialized workforce, more participation by women and minorities, and an increasingly globally-based marketing strategy. His future trend analysis is coming true sooner than originally predicted. Research will only make us understand where these trends are and where the industry is going.

Conclusion

- Family business franchises are now entering their second generation, and a small number are even third generation franchises. This is particularly true of franchises in the United States, as it has the longest history of franchising. However, other parts of the world that particular franchises first developed, such as hotel and restaurant industries, are also experiencing “trans-generational franchising.” Trans-generational franchising, as defined by Welsh (2003), is the “on-going operation of a franchise or franchises that have gone from the original franchisee(s) to another generation of franchisee(s) that are connected either by family membership or ownership.” When the international component is added to a trans-generational franchise or network of franchises, a more complex form of franchising emerges. This has major implications for the franchisor who is trying to maintain positive relationships with franchisees. Additionally, the franchisor may be trans-generational. Welsh calls this the “blind date” phenomenon in franchising. The ability of the franchise system to sustain these long term relationships could have a major impact on the future of franchising.
- The Raymond Family Institute conducted a survey on U.S. family businesses and family business franchises took part (*IFA Insider*, 2002). Understanding the impact of family businesses on franchising and the actual size of this population that is predicted to keep growing in the future is a major research phenomena. Since franchising accounts for 5 percent of the 8 million small businesses in the U.S., and two-thirds of these small businesses are considered family businesses, the impact of this combination is profound in real terms today. In some parts of the globe, such as the Pacific Rim, the percentage of family businesses is even higher, up to 90 percent or more. Tomorrow, the way we do business from a management, marketing, and legal stand point may be very different based on these changing demographics. This area is ripe for research and methodologically should be studied using longitudinal data analyses.
- Franchising, more than any other time in our history is facing many new challenges. That is why Cecilia Falbe and Welsh composed panels on leadership, vision, and strategic decision-making at the 2001 International Society of Franchising Conference, and another panel at the 2002 meeting on organizational learning applied to the franchise industry (Welsh & Falbe, 2001, 2002).
- If the industry is to continue to grow, it needs to transform itself into a 21st century learning organization. Technology can be compared to a moving treadmill, with the speed of information continually ramping up to the next level. Communication is of utmost importance in this age. The environment must be continually scanned for relevant information on the market and its customers. The franchisor and the headquarters staff must provide leadership to communicate their vision to the franchise community.
- In turn, the franchisees, customers, and associations must communicate their vision of the future to the franchisor. Strategic decision-making must evolve from this interaction. It is important that the vision is clear to all stakeholders. The world marketplace demands it.