International Franchising and Other Forms of Entrepreneurship

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Key Terms

emerging markets

industrialized markets

international franchising

Learning Objectives

Upon completion of this chapter, students should be able to:

1. Appraise the extent to which emerging markets account for worldwide business growth.
2. Determine the characteristics of an emerging market and how they are measured.
3. Evaluate why franchising has had such an impact internationally.
4. Analyze what forms franchising has taken in different parts of the world.
5. Differentiate between emerging and industrialized markets.
6. Appraise the extent of franchising worldwide.
7. Describe new franchise industry segments and forms that have emerged.
8. Differentiate between industrialized and emerging countries and how franchising has developed in these countries.

Introduction

Franchising has experienced phenomenal growth both in the United States and abroad in recent years. In the United States, about 40% of all US retail sales may be attributed to franchise units, franchising is also estimated to account for approximately 10% of GDP (Spencer, 2010). Franchising accounts for approximately 40% of all US retail trade (IFA, 2006). The franchise sector in the United States accounts for about 10% of new jobs per year and the franchise sector directly or indirectly support more than 18 million jobs (Reynolds, 2013). The US Census Bureau (2010a) reports franchise businesses accounted for 10.5% of businesses with paid employees in the 295 industries for which franchising data were collected in 2007. Of the 4.3 million total establishments surveyed, 453,326 were either franchisee or franchisor-owned businesses (US Census Bureau, 2010b). In addition, franchise businesses accounted for nearly $1.3 trillion of the $7.7 trillion in total sales for these industries, $153.7 billion out of the $1.6 trillion in total payroll, and 7.9 million workers out of a total workforce of 59.0 million (US Census Bureau, 2010b). Although there are no exact figures for the percent of franchised businesses around the globe, franchising has an indelible mark on world trade. This chapter examines franchising first in emerging markets around the world, then in industrialized markets. First, we define what an emerging market is, characteristics of emerging markets, why franchising has had such an impact internationally, and research in emerging markets by areas of the world market. Central and Eastern Europe, Mexico and South America, Singapore, Malaysia and Hong Kong, China, India, and the Middle East. Then, we look at industrialized markets, beginning with North America. We follow with an examination of Japan, Australia, New Zealand, South Africa, and Europe—including Austria, Denmark, Finland, France, Germany, Greece, Italy, and Norway. Next, the United Kingdom is studied.

Emerging Markets

Although in the US, Canada, and parts of Western Europe franchising has reached domestic market saturation, emerging markets remain relatively untapped. Emerging markets, accounting for 80% of the world's population and 60% of the world's natural resources, present the most dynamic potential for long-term growth to businesses, in general, and to franchisors, in specific. The US Department of Commerce estimated that over 75% of the expected growth in world trade over the next two decades will come from emerging countries, particularly big emerging countries, which account for over half the world's population but only 25% of its GDP. Brazil, Russia, India, China, and South Africa (BRICS) which currently account for more than a quarter of the world's land area and more than 40% of the world's population are ripe for international trade. The increasing demand for consumer goods, coupled with major infrastructure needs in these markets, underscore their potential as key export destinations for US goods and services (US Department of Commerce).

Emerging markets are among the fastest growing markets for international franchisors. Several surveys conducted by Arthur Anderson showed that more and more franchisors are seeking opportunities in emerging markets. An article in *Franchising World* (Amies, 1999, pp. 27–28) stated, "Franchises are springing up in the most unlikely, and for many of us unheard-of, places. Those franchisors who can establish a beach-head on these wilder shores could do very well, but the risks are great."

The research that has been conducted in emerging economies helps us better understand international franchising opportunities and threats in emerging economies.

Table 11.1 Summary of US Published Articles in Franchising Research: An International Journal and the Proceedings of the International Society of Franchising Pertaining to Franchising in Emerging Markets*

YEAR	TITLE	AUTHOR(S)
1988	Franchising in Asia	Neilson and Yo
1988	International Business Format...	Kaufmann and Leibenstein
1990	Franchise...East Asia	Chan and Justis
1991	Opportunities...U.S.S.R.	Welsh and Swerdlow
1992	The Future...U.S.S.R....Students	Swerdlow and Welsh
1992	Franchising Opportunities in the Free...	Grimaldi
1992	Pizzas in Mexico...	Willems, English, and Ito
1992	Franchising...Former Soviet Union	Christy and Haftel
1993	Pizza Hut in Moscow...	Christy and Haftel
1993	A Cross Cultural...Russian Hotel	Welsh and Swerdlow
1994	A Survey of Franchising in Singapore	Chan, Foo, Quek, and Justis
1994	Franchising in China	English and Xau
1994	Does Business Format...Russia	Swerdlow and Bushmarin
1995	Franchising in Brazil	Josias and McIntryre
1995	Franchising in India...	Paswan and Dant
1995	Franchising in Indonesia	Chan and Justis
1996	Franchising in South Africa	Scholtz
1996	Franchising into Asia...	McCosker
1996	Local Franchising...Singapore	Goh and Lee
1996	The...Elegant Shoplifter,...Kuwait	Welsh, Raven, and Al-Bisher
1997	Franchising as a Tool for SME...	Sanghavi
1997	An Overview...South African...	Scholtz
1998	NAFTA and Franchising...	Falbe and Welsh
1998	Franchising in Slovenia...	Pavlin
1998	Case Study...Mexico	Hadjimarcou and Barnes
2000	New Trends in Slovenian Franchising	Pavlin
2000	Franchising in Mexico	Lafontaine
2001	Int'l Franchising in China...	Alon

Table 11.1 (continued)

2001	Int'l Franchising in Emerging Markets…	Welsh
2001	The Emerging Patterns of Franchising…	Dant and Kaufmann
2001	Publication Opinion About Franchising…	Paswan, Young and Kantamneni
2002	An Exploratory Study of Encroaching…	du Toit
2002	A Comparative Analysis of Franchise…	Terry
2002	Brand-Country of Origin Association…	Paswan and Sharma
2003	How Do Franchisors with Int'l…	Elango
2003	A Survey of Franchising in China	Bian and Alon
2003	Retail Franchising As An Entry Mode…	Picot- Coupey and Cliquet
2003	The Role of Franchising in African…	Siggel, Maisonneuve and Fortin
2003	The Franchise Baseline 2002…	du Toit

*The authors do not intend for this list to be comprehensive
Note. For a complete citation, see the Reference list.

Background

What Is An Emerging Market?

Although there is no consensus definition of the term "emerging market," Czinkota and Ronkainen (1997) identified three characteristics associated with an emerging economy.

- Level of economic development
- Economic growth
- Market governance

Level of Economic Development

The level of economic development is typically measured in terms of gross domestic products (GDP) 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 and McKee, 1999).

The usage of the level of economic development as a demarcation criterion for distinguishing emerging markets equates with the anachronisms of the World Bank and the United Nations, which include terms such as Less Developed Countries (LDCs), Third World Countries, and Developing Countries. The World Bank divides countries on the basis of GDP per capita into four classes. Three of the big emerging countries (India, China, and Vietnam) fall into the lowest income class. According to the United Nations, only about 15% of the world's population resides in developed market economy countries (Czinkota and Ronkainen, 1997). The world's population is likely to exceed 10 billion by the end of the century, up from 7 billion this year, according to research based on United Nations data. Developing countries, notably those in Africa, will experience tremendous growth while the developed world's population will decline or remain flat (Sauter, 2011).

Economic Growth

When dealing with emerging markets, it is important to adjust GDP per capita to purchasing power parity in order to gauge income in relation to the "real" cost of living (Arnold and 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." Emerging and developing markets dominated the period between 2003 and 2013, particularly developing Asia, which grew at an average annual pace of 8.5% (Pasquali, 2013). In 1997, 1998, and 1999, East Asia, Brazil, and Russia encountered financial crises that set back their economies' growth. Such crises demonstrate that the often-touted high growth rates of emerging markets may not be sustainable over a long period of time.

The level of economic growth is among the most important consideration for international franchising expansion (Alon and McKee, 1999). When examining an emerging market's GDP growth, one must contrast it to the growth in the population. If population growth rates exceed GDP growth rates then the standard of living in those countries will actually drop over time. One useful measure that captures both growth rates is GDP per capita growth rate.

Market Governance

The third criteria for judging emerging markets is the country's market governance. Market governance includes the extent of free market, government control of key resources, stability of the market system, and the regulatory environment. Countries that are liberalizing their economic institutions and democratizing their political structures are often referred to as transitional economies/countries. These transitions have been welcomed by the western economies and regarded as opportunities for international franchising expansion.

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 and Ronkainen, 1997). Such risks are systematically evaluated by western institutions such as the Economist Intelligence Unit, Institutional Investor, and International Country Risk Guide (ICRG).

Market governance influences a wide range of country risk elements such as government regulation and red tape, political stability, bribery, ownership restrictions, controls of capital flows, import restrictions, all of which are important to international franchisors' evaluations of foreign market potential (Alon and McKee, 1999).

A number of authors, both industry analysts and academics, have identified emerging markets as a topic that needs further research for the franchise industry. In 1988, Kaufmann and Leibenstein wrote an article for the United Nations when franchising in developing countries was just beginning. In 1990, Welsh conducted the first survey on Russian soil on franchising, at a time when the word franchising had no meaning to the population except when it was coupled with McDonald's. That was the same year the franchise opened in Moscow to a tremendous welcoming by the Russian people and the press (Welsh and Swerdlow, 1991). Since that time, franchising in emerging markets has grown dramatically. For example, by 1995, there were 26 more franchisors in Brazil alone than there were in all of South America in 1985 (International Franchise Research Centre, 2000). In 2012, Brazil's franchising industry was expected to grow profits by 15%, while the total number of franchises rose by a further 10% to 2,031 brands (Geromel, 2012).

Academics and practitioners have answered the call for more research and evaluation of franchising in these new markets around the globe. Young, McIntyre, and Green (2000) examined the content of articles that had been published in the International Society of Franchising Proceedings. Out of almost 70 articles between 1987 and 1999, 9 dealt with economies in transition and 14 others dealt with developing economies. Practitioners have also published articles on the topic. For example, Leonard Swartz (2001) of Arthur Anderson, examined the state of franchising in Asia—China, Indonesia, Singapore, and Malaysia, Eastern Europe—Russia, Poland, Hungary, and Greece, as well as the Middle East—United Arab Emirates, Israel, Saudi Arabia, Kuwait, Egypt, and South America—Chile, Uruguay, Brazil, Argentina, Columbia, and Peru.

Practice and Theory Development

Why has franchising had such an impact internationally? What forms has franchising taken in different parts of the world? A number of authors have addressed these questions. Grimaldi (1992) analyzed the opportunities for franchising in free trade zones. Kaufmann (2001) looked at the issues of cultural and legal differences in the age of the Internet and the impact of franchising on host country development. Specifically, he examined the modes of entry, cultural differences and proven concepts, cultural differences and technology, legal differences, and host country development. Stanworth, Price, and Purdy (2001) looked at franchising as a means of technology transfer for developing economies. Their article explored the background to the internationalization of franchising, favorable factors to the growth of franchising, benefits to developing economies, other consequences to developing economies, advantages and risks to franchisors, as well as government action to encourage franchising. The authors gave special insight into Indonesia, China, and Brazil.

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. Examples of Australian firms extending their franchise systems into Eastern Europe, Asia, and Latin America demonstrate the applicability of this approach to branding in their article. 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. Dana, Etemad, and Wright (2001) developed an interdependence paradigm to explain these franchise marketing networks using examples of firms in South Korea and the Philippines.

Research by Areas of the World Market

Central and Eastern Europe

Nitin Sanghavi's (2001) article, "The Use of Franchising as a Tool for SME Development in Developing Economies: A Case of Central European Economics," gave his personal perspective on the use of franchising as an economic development tool from his numerous experiences with those countries. He summarized the current state of franchising in Eastern Europe as compared to 1997 when he first looked at the topic (Sanghavi, 1997).

Swerdlow, Roehl, and Welsh (2001), and Alon and Banai (2001), in their respective articles, "Hospitality Franchising in Russia for the twenty-first 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 an economic power. Both articles examined the postcommunist economy with a focus on environmental factors associated with international franchise development and entry strategies those potential franchisors would find successful. The articles included some practical suggestions for those entering and maneuvering through this huge market. 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 and Bushmarin, 1994; Welsh and 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 Nedialkova (2001) specifically examined franchising opportunities in Bulgaria, with a focus on the macroeconomic factors of the Bulgarian economy associated with franchising. Although international investors have been developing franchises in Bulgaria for over 25 years, the market has remained sluggish, given the government system and bureaucracy. However, a number of positive developments have come about and recent success stories that give reasons to be optimistic concerning the future of franchise development in Bulgaria.

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. In addition, the article elaborates on the current state of Croatian franchise activity and other forms of market expansion that have been successful in Croatia.

Current conditions, features, and trends in Slovenian franchising are analyzed empirically in an article by Pavlin (2001). Using the definition of franchising adopted by the European Franchise Federation (EFF), there were over 40 operating franchise systems in Slovenia in 1998 and in 2009, there were 107 (European Franchise Federation, 2011). He compares these results to studies he conducted on Slovenian franchising that were published in 1998 and 2000. In 1998, of the 40 franchises operating in his country, 20 participated in his survey on the current state of franchising. The article includes results from a recent survey of prospective Slovenian franchisees identifying their core attributes that include: a willingness to follow the franchise manual and guidelines, creativity and ability to cope with a variety of situations, experience with earlier self-employment, and technical experience; and offers a framework for profitable future development of the industry in Slovenia that might be useful for franchisors and franchisees.

In 2013, Kazakhstan had approximately 450 franchises operating in Kazakhstan with 3000 franchising outlets (US Department of Commerce, 2013). 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. Finally, the authors gave their viewpoint on particular franchise industries that they believe would thrive; and end with a discussion of future research that needs to be conducted.

Mexico and South America

Three articles focused on different aspects of Mexican franchising. 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 US-based franchise. The second perspective is that of the US 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. The author shared the results of a survey of over 70 Mexican franchisees of US-based franchise systems. Results showed that the commonly held beliefs within both the United States and Mexico concerning the desirability of franchising as a mode of market entry, and caution of the part of franchisees, franchisors, and the host governments is warranted. The article painted a realistic view of the risks and rewards of franchising and a bountiful amount of information for those contemplating franchising in Mexico.

Hadjimarcou and Barnes (2001) explained the expansion process of a relatively new and small franchisor, Silver Streak Restaurant Corporation, into Mexico as a case study. The authors detailed the cultural challenges of entering Mexico, the company's efforts to identify a suitable partner in the host country, the adaptation of the concept to address differences in the new market, and the multitude of crucial decisions that need to be made when going international. The authors discussed the recent changes in the law that favor franchising, as well as the role that strategic alliances played in the success of their international franchise efforts. Implications for both research and practitioners are explicated. Silver Streak Restaurant Corporation originally opened their first franchised restaurant in 1996 in Juarez, a city of 1.5 million on the border of the United States (Hadjimarcou and Barnes, 1998).

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 and 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. In addition, results of the study showed that neither business type or franchise size had any effect on perceptions of success or failure. The authors examined the research that has been conducted since the study appeared in 1998 and what we know in 2001.

Josias and McIntryre 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. In 2001, only the United States and Canada had more franchises than Brazil. However, China has climbed the ladder adding its franchise total reaching 111,477, with the previous countries operating 757,055, 78,000, and 2031 stores respectively (Edwards, 2011; Canadian Franchise Association, 2014; Geromel, 2012). The author covered the history of franchising in Brazil, 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 as 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 US-based franchises into that country: Kentucky

Fried Chicken (KFC) and McDonald's. They updated his report in a 2001 article. 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

China has the most potential for growth of all markets. 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, and Qi, 2001). In addition, they expanded on the creation and growth of indigenous hotel chains. From 1979 to 1999, the number of hotels in China has grown from the ground up, so to speak. There are now 7035 hotels where there previously were none. In 2007, there were 13,583 star-rated hotels in China (Travel China Guide, 2007). 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." The articles covered the challenges faced by these early franchising pioneers and the quick fire success they have experienced. His "Y2K Update" looked at these two systems, which now have about 300 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 US 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 affecting 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.

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 of 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 US-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 17 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.

Edwards (2011) reported that the China Chain Store and Franchise Association (CCFA)—a quasi-government nonprofit membership association for Chinese and foreign retailers, franchisers, and well-known foreign brands—now has 900 members with 180,000 outlets across China. The total annual sales of CCFA members reached nearly $300 billion in 2010—about 13% of total retail sales in China. CCFA has also monitored the top 120 franchises in China to gain a clearer picture of franchise development. In 2010, these 120 companies operated 111,477 franchise stores, an increase of 17.6% over 2009. Total sales of the top 120 franchisors reached $52.4 billion in 2010, up 8.9% over 2009. Edwards (2011) identifies the following opportunities: the consumer middle class is expanding, brands from the west are highly regarded**,** established franchises from the west have new and modern business systems, and now cities that are in the second and third tier are opening to franchising. Challenges include: the long-term problem with intellectual property protection, lack of management skills by local manager, identifying and evaluating candidates for licensing is challenging, the size of China makes for many different markets, the regulatory environment is constantly changing, and franchises must adapt to the Chinese market (Edwards, 2001).

India

India is a country with a huge potential for franchising growth. It is estimated that the current market in India is approximately USD 1 billion, and has a growth rate per annum of 30%. The United States Government has designated India as a Big Emerging Market (BEM). Although 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 that 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, which 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.

Other Asian 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 22 countries that is differentiated by area, population, annual population growth, and GDP. In addition, 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, and 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. M. H. Alshaya Co. operates over 350 Starbucks stores in the Middle East region (Starbucks Corporation, 2014). 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.

Industrialized Markets

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 $1 trillion worth of goods and services from Tokyo to New York (Reynolds, 2002). Franchising is powerful. Franchising is here to stay.

Currently, franchising is 40% of retail trade in the United States and 25% in Canada (Fenwick and Strombom, 1998; Scrivener, 2001). In the article, Welsh 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 the self-satisfaction that comes 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 a 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 affected 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.

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. In addition, 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 looked 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 world's largest franchise operation when he created Subway (Jones, 2011). In North America, they have 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 worldwide. It all began in 1965 with the help of a family friend, who loaned him $1,000 to help pay for college tuition. In 2002, it has more than 16,000 franchised restaurants in 74 countries. As of 2013, there are 25,549 Subway franchise store in the United States, with more than 37,000 franchises in 99 countries and territories worldwide (Morran, 2013; Subway, 2014). The article covered the management challenges facing the franchise as it has expanded globally, as well as a summary of its growth in certain countries, 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 insignificant for the hotel and professional business service categories, and had a negative relationship on internationalizing 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. In addition, 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. Franchise legislation is currently in force in five Canadian provinces: Alberta, Ontario, New Brunswick, Prince Edward Island, and Manitoba. The legislation for Manitoba is most recent, coming into action on October 1, 2012 (Floriani and Liebman, 2014). Canada has followed the lead of the European Union (EU) 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 extended to the provinces that have not passed their own legislation concerning privacy. Currently, there are 76,000 franchises operating in Canada (Canadian Franchise Directory, 2014). 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. KFC average sales per store in Asia are US $1.2 million, compared to per store revenues in the United States of $933,000 (Oches, 2011). 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 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 6% to 8%. 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 (2001) 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. As of 2010, there are approximately 1025 business format franchisors in Australia (which franchise Australia, 2014). In fact, Australia has more franchisors per capita than the United States. There are about 69,900 franchise units in the country, which has expanded steadily despite much industry consolidation. Individual franchise systems have grown from a median of 18 to 23 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

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, and the median start-up costs, among other statistics. In 2012, there were over 440 franchise systems operating 22,000 units in New Zealand (Franchise Association of New Zealand, 2014). Of particular interest are his results of the number of systems that have websites (84%), and the failure rate data. Over a 3-year period, only 6% failed and a miniscule 16% of franchisors (6% of franchisees) considered franchising to be not a good return on their investment. Hardly a 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, with 1 franchise per 186.5 citizens (Lord, 2013). In addition, 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 40s with a lump sum payment from the government of $250,000 and were looking for investment opportunities. Many bought franchises. This 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 subsequent 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 6000 outlets operating in the country and that the market was ripe for more entry of international franchises. Growing 13% annually, South Africa now has over 400 franchise systems and 23,000 franchise outlets (Smit and Van Wyk, Inc., 2013).

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 10% 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, good suggestions wherever the franchise is located worldwide.

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' exports go to other EU countries. However, last year bike sales actually overtook car sales in 23 of the 27 EU member states, except for Belgium and Luxembourg (data was not available for Cyprus and Malta) (Marks, 2013). This is the first time since World War II that bikes outsold cars in Italy and Spain and hit a record in bike sales for the first time in their history (Marks, 2013). This has been attributed to the global recession, since the EU economy is still recovering. European car sales were at a 20-year low for the first half of 2013. For example bikes outsold cars in Romania five to one (380,000 to 72,000 cars). Germany sold the most bikes to cars (3,966.000 to 3,083,000 cars) (Marks, 2013).

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 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. In 2000, the EU was 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). As of 2011, Europe's exports of manufactured goods reached nearly US $5 trillion (World Trade Organization, 2012). The Euro, the official currency of the EU, has so far shown to be stable, convertible, and has increasingly become an internationally viable alternative to the US dollar for business transactions and central bank operations.

Although 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 United Kingdom 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% of franchises, 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, and Kliger, 2002). The

European market is much more heterogenous than the United States, 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 in 2002, 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. In 2014, these countries account for 373 million consumers and the average GDP per capita is over $36,000. In addition, franchising in Belgium, Ireland, Netherlands, and Sweden is covered.

Table 11.2 European Countries Examined

COUNTRY	LANGUAGES	CAPITAL CITY	POPULATION 2002	PER CAPITA GDP 2002	POPULATION 2014	PER CAPITA GDP 2014
Austria	German	Vienna	8,078,000	$25,655	8,221,000	43,100
Denmark	Danish	Copenhagen	5,300,000	$32,000	5,560,000	37,700
Finland	Finnish	Helsinki	5,130,000	$16,000	5,266,000	36,500
France	French	Paris	58,000,000	$23,000	65,950,000	35,500
Germany	German	Berlin	82,000,000	$25,000	81,147,000	39,100
Greece	Greek	Athens	11,500,000	$11,305	10,770,000	25,100
Italy	Italian	Rome	56,900,000	$20,000	61,482,000	30,600
Norway	Norwegian	Oslo	4,400,000	$33,300	4,722,000	55,900
Portugal	Portuguese	Lisbon	9,900,000	$10,901	10,800,000	23,800
Spain	Spanish	Madrid	40,000,000	$13,200	47,370,000	31,100
Switzerland	German	Bern	7,110,000	$35,614	8,000,000	46,200
United Kingdom	English	London	59,100,000	$24,300	63,400,000	37,500

Source: International Franchising Association, www.franchise.org (retrieved Feb, 24, 2014)

Overview of Franchising in Europe

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 EU. 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, United Kingdom, France, Italy, Portugal, Netherlands, Sweden, Austria, Greece, Belgium, Ireland, Denmark, and Finland.

Mendelsohn (2003) 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 Charles 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 (2003) offered final suggestions to European franchisors wishing to internationalize their operations by discussing key trends. Although 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.

Unlike the United States, 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 multilingual 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

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 2003 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. His chapter on Denmark 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 as a reference to the reader, Sanghavi attaches the European Code of Ethics for Franchising to which Denmark subscribes. The paper concluded that opportunities for retail franchising in Denmark are abundant.

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 gross annual sales of about $3.25 billion. Currently, Finland is home to close to 300 franchising systems with over 6000 operating units accounting for over $6 billion in sales (US Department of Commerce, 2012). 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 (2003) 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 (2003a) 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% 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. Multi-unit franchising is growing rapidly in France.

Perrigot and Cliquet (2003b) 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 to 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

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 (2003) described franchising as it applies to women in Germany. General conditions for women in Germany, start-up 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.

Greece

Dimou and Ikkos (2003) 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 had 400 franchisors with over 4000 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.

Italy

Luca, Majocchi, and Pavione (2003) 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 (2003) article complements Luca et al. by examining Italian franchising as a mode of entry into international markets. Although 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, United States of America, United Kingdom, Spain, Switzerland, Belgium, Netherlands, Austria and Greece. Italy mostly trades with European countries.

Norway

Singh (2003) 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 EU. As of 2002, there were 184 franchisors with a network of over 7253 outlets. There is little statistical material on franchising in Norway; however, as of 2004 there were 242 franchise systems in operation (Nilssen, 2004). Franchising was relatively new to Norway in 2002, but the country has made 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), presented a typology of direct sales franchising based on two dimensions: product or service and home-based or 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 (2003) 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.

Summary

The advent of franchising is a world-wide phenomenon, and the importance of franchising cannot be overlooked. 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 1 out of 16 workers in the United States. In 2010, the US Census Bureau reported that franchise businesses accounted for "nearly $1.3 trillion of the $7.7 trillion in total sales for these industries, $153.7 billion out of the $1.6 trillion in total payroll, and 7.9 million workers out of a total workforce of 59.0 million." If we add direct and indirect jobs through the supply chain, franchises support 7.9 million workers. This report is based on 2007 US census data (US Census Bureau, 2010).

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 worldwide 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 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.

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. In addition, the franchisor may be trans-generational. Welsh call 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 US 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 phenomenon. As franchising accounts for 5% of the 8 million small businesses in the United States, and two-thirds of these small businesses are considered family businesses, the impact of this combination is profound in real terms today. Unfortunately, this report is no longer done. In some parts of the globe, such as the Pacific Rim, the percentage of family businesses is even higher, up to 90% 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 leadership, vision, and strategic decision-making applied to the franchise industry are so important (Welsh, Adler, Falbe, Gardner, and Rennick, 2001). If the industry is to continue to grow, it needs to transform itself into a twenty-first 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.

Discussion Questions:

1. What is an emerging market?
2. What are the two types of franchise arrangements in Croatia?
3. In Mexico, what are the three different ways to enter the market?
4. What is the third largest franchise market in the world?
5. What country has the most potential for growth of all markets?
6. What six major findings were uncovered by Alon with a Chinese beauty parlor franchise that tells us much about franchising in China?
7. Where did franchising begin, what year and what company?
8. How big is franchising in Australia?
9. What questions should American franchises ask themselves?
10. What are the cultural and environmental impacts to franchises wanting to do business in Europe?

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