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# Franchising As A Way Of Creating Entrepreneurship And Innovation


## Abstract

*The article analyses* ***franchising*** *as a business model based on an economic relationship between the parties. The discussion of the early forms of franchising and of factors stimulating its development in Poland and the world is followed by the presentation of data showing franchise growth trends in Poland for, respectively, domestic and foreign brands. The article highlights the advantages of franchising, which allow it to resist economic crises, stimulate entrepreneurship and innovativeness, and minimise business risks. It also offers a number of comments, observations and conclusions on the synergies that both firms and the Polish economy as a whole can derive from franchising.*


***Keywords:*** *franchising, franchise, franchise system, know-how, entrepreneurship, knowledge, innovation, competitiveness, standardization, business risk*

## 1. Introduction

J. Schumpeter's theory of economic development provided, among other things, a new perspective on the role of an enterprise and an entrepreneur in the

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age of a dynamically expanding world economy. Enterprises seek competitive advantages, based on their key competencies, which allow them to become strong enough to compete in the global market. This means that only innovative firms with substantial resources of intellectual and financial capital can stand up to global competition and contribute to economic growth.

Risks involved in innovative projects make them difficult to fund. Polish entrepreneurs consider that the main problem hindering entrepreneurial activity is the unavailability of funding necessary to develop and commercialise ideas, rather than a lack of business ideas themselves. Insufficient funding also prevents entrepreneurs from participating in fairs and economic missions, not to mention promotion of their brands. Financial shortages are the most painful for young, aspiring entrepreneurs who do not have a track record in business and thereby stand no realistic chance of raising capital.

Despite the wide range of unconventional sources of funding that are theoretically addressed to entrepreneurs, the terms on which they can be accessed are rather restrictive, as both investors and entrepreneurs tend to minimise their exposure. Creative destruction[1] of the existing production methods, taking the form of subsequent innovations, changes interpersonal relations as well as the structure of business organisations, thus constantly increasing entrepreneurs' demand for funding. According to J. Schumpeter, entrepreneurship may not exist without external capital. As the development of civilisation has entered its hyper-innovative phase, today the demand for financial capital is even greater. In fact, capital is still available despite the crisis, but investors have become more cautious in granting access to their resources. However, they are still ready to support ambitious projects as long as they can bring the expected rates of return. All business projects, including the commencement of one's own business activity, need an adequate amount of funding to be launched. To be eligible for external funding, new entrepreneurs are expected be able to cover at least 20% of the project's costs from their own resources. But even those who are willing and able to do so face the following question: how can I raise the other 80%?

Compared with well-established businesses, the situation of aspiring or new entrepreneurs trying to raise the necessary capital is dramatically worse. One solution to their problems is a **franchise arrangement,** which allows one party (the franchisor) to expand its business and the other party (the franchisee) to have its own firm. Franchises are affordable for almost everyone, because

[1] For some, creative destruction is a controversial issue. The tactics employed in present-day capitalism is also called the shock doctrine. See N. Klein, *Doktryna szoku,* Warszawskie Wydawnictwo Literackie MUZA S.A., Warszawa 2008.

franchise fees (paid upfront to enter a network) range from as little as several hundred PLN to around 170,000 PLN (depending on the industry and brand).

Royalties, which are paid once a franchise is up and running, range from several thousand zlotys for the least expensive systems to several million euros for the most expensive ones. In many countries, the prospective franchisees' proposals are evaluated against a well-known reasonable price criterion developed by Prof. Robert Aumann, a Noble Prize winner in economics, drawing on the game theory (the lowest and highest bids are rejected, which discourages the bidders from offering unrealistic prices and makes their bankruptcy less probable). In return for the franchise fees and other profits that franchise agreements grant to franchisors, franchisees are entitled to franchisor's know-how, brand, training, managerial support, advertising services, and access to fairs. Franchising is a modern model of doing business that provides a franchisee with standardised and proven know-how, developed by the franchisor.

Franchising offers franchisors growth opportunities through the "multiplication" of their business, while franchisees benefit from substantial financial support (this is a special mode of financing small businesses). Franchisees receive:

- a successful business model that the franchisor has developed and tested,
- "know-how", which is available for the duration of the agreement,
- training in all aspects of the new business model,
- franchisor's assistance and advice,
- a share in the franchisor's reputation,
- franchisor's trademark (brand),
- access to network-wide advertising programmes;
- other services (e.g. group negotiations on deliveries, financial and logistic services, etc.).

Franchising allows young and educated people without financial capital and business experience to become economically active. A potential franchisee obtains not only a tested business concept, but also the opportunity to avoid mistakes and run a business that is almost risk free.

The franchise market in Poland has been expanding since 1995. At the same time, changes in both the world economy and Poland strengthen the position of franchisees. Tough competition and the growing number of franchise systems make franchisors develop increasingly attractive forms of cooperation to attract new franchisees. The Polish franchise market is becoming more and more similar to the fully-fledged franchise markets in Western Europe, where franchise as a business option is used with particular frequency in the private sector.

The domestic franchise systems in Poland account for around 80% of all franchise firms. The potential of this market has been also appreciated by 191 foreign systems. A noteworthy fact is that over 70 Polish franchisors have expanded into foreign markets, which constitutes solid proof that entrepreneurship is developing in the country.[2]

The expansion of franchise systems in the seventeen EU Member States selected for analysis (see Table 3) is comparable to the biggest markets in the world. The leader is France, with almost 1,400 franchise systems (out of 10,000 in the sampled countries). In the USA, where the first systems of this type were established, the 2007-2009 estimates pointed to 2,200 systems. The European Franchise Federation reports that franchise units in the selected EU-17 employ nearly 4 million people (almost 11% have jobs in SMEs, which account for 4.6% of franchisees).[3]

Franchising derives its popularity not only from its ability to address the mutual interests of franchisors, franchisees, and the micro and macro-economic environment, but also from its usefulness in promoting the spill over of innovations. Owing to its characteristics and results, franchising offers synergies to both the immediate partners and the entire economy.

## 2. The concept of franchise

The English words ‘franchising’ and ‘franchise’ come from the Old French verbs “franc” or “francher” (affranchir in present-day French), that mea respectively ‘to free’ or ‘to exempt’. In the early period they denoted a privilege or a special right, such as exemption from a tax, customs duties or vassalage, or freedom from feudal power. The term ‘franchise’ entered official use in the 12$^{th}$ c. because of the Chartes de franchise, on the strength of which Church and secular rulers granted their subjects the right to use forests in return for payments in cash or services. Towns and guilds were granted privileges that limited the power of feudal lords over them, and merchants and craftsmen were authorised to hold markets and fairs.

In England, franchising started with the Norman conquest in 1066, after which the new rulers allowed their trusted secular and clerical subjects to collect

[2] Having visited the USA, A. Tocqueville (1805-1859), a French sociologist, historian and politician stated, that what impressed him most was not the huge scale of some projects, but the multitude of the small ones. According to Tocqueville, Americans were making tremendous progress in business, because everyone was involved in it. Their approach to doing business has not changed to date.

[3] http://franchising.pl/artykul/6325/rozwoj-franczyzy-w-europie (accessed on 7 March 2014).

local taxes in return for payments in cash or political support (the right was called „franchiso"). The system ended in 1562, after the Council of Trent demanded a reform of the tax system. Franchising was also known in English real property law, where it was defined as exemption from restrictions on the use of land: the 'franchilanus' was a free tenant. In later times, the word franchise was applied to various rights and privileges. In the 16$^{th}$ and 17$^{th}$ centuries it also meant the permission to use a patent for commercial purposes (Fuchs 1998, pp. 17-23). A form of a franchise agreement that appeared in the 18$^{th}$ c. and is still used today was known as "tied house" contracts concluded between producers and suppliers, and between breweries and landowners. The contracts included licences for the sale of specified amounts of beer and spirits. The fast rising value of the licensed pubs and the declining number of customers caused breweries to take over the licensed pubs and lease them out. The lease contract prevented the new innkeeper from selling any other beer but that made by the brewery that owned the inn (Banachowicz, Nowak, Starkowski 1995).

The literature points to Isaac Merritt Singer, a manufacturer of sewing machines in the 19$^{th}$ century, as the precursor of modern-day franchising. It was, however, not until the 20$^{th}$ century that this business model expanded into all parts of the world. Today it is used to run dealerships in the automotive, petrol, food (restaurants) and soft drinks industries (in 1900, only four years after he invented Coca Cola, John S. Pemberton offered a licence to bottlers buying his syrup concentrate that allowed them to use the Coca Cola brand and logo). Over time, but particularly after World War II, franchising was absorbed into almost all industries, mainly in the USA and Western Europe.

In Poland, franchising appeared along with the French company Yves Rocher and its first franchised store, which opened in 1989. Yves Rocher was soon followed by franchisors from the food-serving industry. The ranks of franchisors were shortly joined by the big players, as they concluded that the franchise market offered them an opportunity for rapid expansion and increase in sales. The pioneers of Polish franchising are the owners of the Mr Hamburger restaurant and of the A. Blikle cake shop.

In the Polish literature on franchising, '**franczyza'**, a polonised version of the English words **franchising** and **franchise**, is starting to be used more and more often as a legitimate equivalent. The word appeared following a request submitted by the Polish Franchise Organisation to the Council for the Polish Language at the Polish Academy of Sciences. The Council developed the following franchise-related definitions:[4]

[4] www.franchising.info.pl – Portal Pomysłów na Biznes.

- **franchise** – the rights and obligations of the franchisor and franchisee arising from a franchise agreement,
- **franchising** – a process whereby the rights and obligations of the franchisor and franchisee are respectively granted and assumed,
- **a franchise agreement** – an agreement setting out the rights and obligations of the franchisor and the franchisee,
- **a franchisee** – the party that receives rights and obligations under a franchise agreement;
- **a franchisor** – the party that grants rights and obligations under a franchise agreement.

A franchise is an economic relationship by which the owner of a product, process, or a trademark (the franchisor) grants the other party (the franchisee) a right to use them commercially for a fee or an agreed benefit (Lewandowska 1999, p. 65).

The European Code of Ethics for Franchising defines a franchise as a system for marketing goods, services and technologies involving close and regular cooperation between legally and financially separate entities, the franchisor and franchisees, where the latter have a right but also an obligation to run the business in compliance with the format developed by the franchisor.[5]

An advantage of a franchise agreement is that it opens up new business opportunities and takes care of the franchise's positive market image. Weak firms are thus given a new chance, because the franchisor protects them, in their best interest, from bankruptcy. The franchisors' profits and operational costs place a franchise among the most successful marketing concepts in the world. Business expansion through "multiplication", a basic feature of franchising, is recognised as one of the most effective methods that can be adopted to develop economies and win the targeted market segments.

Polish legislation does not have laws that apply specifically to the formation of franchise relationships. Since neither the Civil Code nor any other normative document regulates the nature of franchise agreements, they are classified as innominate contracts (*contractus innominatus*). These contracts can be created and concluded under the freedom of contract principle provided in art. $353^1$ of the Civil Code, according to which the parties to a contract may form their legal relationship at their own discretion, as long as the contents of the contract or its purpose does not contradict the nature of the relationship, the statute or the principles of social coexistence. Because direct regulations of franchise agreements do not exist, other pertinent laws are used in drawing them up.

[5] http://franczyza.org.pl

A franchise agreement must specify the type and amount of goods or services to which the franchisee will have an exclusive right of sale, the market, and the manner of financial settlements. In return, the franchisee must pay an agreed amount of money, either as a one-off payment or periodically. In the second case, the amount is calculated as a percentage of the sales and usually ranges between 2 and 20% of the franchisee's annual turnover. In addition to this **direct** payment, a franchisor may also be required to make **indirect** payments, following from the purchase of intermediate goods, products or services from the franchisor. Because franchising is essentially based on quality, franchisors make sure that their franchisees comply with **strictly defined standards**.

Franchise agreements differ from other, similar contracts in that they must contain certain fundamental provisions:

- **permission** that allows the franchisee to use goods protected under industrial and intellectual property laws (trademarks, commercial names, shop signs, registered designs, copyrights or patents, etc.) for commercial purposes, but strictly within the scope of the permission granted,
- **a clause** which grants the franchisee the right and obligation to act in its own name and on its own account,
- **a clause** according to which the network organiser must assist and support the franchisee,
- **payments** for the franchisor.

**A franchise agreement is a mutually beneficial relationship**. It enables **the franchisor** to expand into new markets without having to invest much of its own capital in the enlargement of the existing facilities or in the construction of new ones. The main advantage for **the franchisee** is a minimal business risk, because having a renowned partner should improve their competitiveness almost immediately. A franchise agreement is frequently a springboard to prosperity, because by entering a network the franchisee benefits from its successes and the network's reputation becomes its own.

In order to support the expansion of franchising and to promote it in Poland, the **Polish Franchise Organisation** (PFO) was founded by the Polish franchise industry in 2000, which 10 years later became a member of the **European Franchise Federation**. In the last twenty five years the following innovative and distinctive forms of franchise have gained in popularity in the world: a turnkey franchise, a banking franchise, and a cooperative franchise (Lewandowska 1999, pp. 69-75 as quoted in Stecki 1994):

- **a turnkey franchise**: the franchisor builds, starts up and transfers a facility to a franchisee;

- **a banking franchise**: the franchisor (a bank) delivers its services through a franchisee or entrusts their delivery to them;
- **a cooperative franchise**: independent firms decide to start cooperation to create complementary solutions in the business segment they have chosen.

Analysed according to the **type of business**, the following categories of franchise appear to be the most frequent:

- **a retail franchise** that specifies the type of business, area/territory and the period in which the franchisee is permitted operate as such. Its exemplification is a franchisor running a wholesale business and supplying retail shops in the network (franchisees) with some brand of goods. The partners are independent of each other. This approach allows the franchisor to grow faster and the franchisees to have a share in its success. The retail franchise is behind the worldwide expansion of McDonald's restaurants (in the 1940s the McDonald brothers, Richard and Maurice, started a hamburger stand that was subsequently replaced by the first self-service restaurant with hamburgers and fries). Realising that the franchise's success depends on **standardization,** the McDonald's corporation founded Hamburger University to ensure that all their hamburgers taste the same wherever they are sold;
- **a distribution franchise**, where the franchisee is granted a right to sell products delivered by the franchisor, but the manner of selling and the structure of the franchisee's company are different from franchisor's. The franchisee is obligated to display the franchisor' name next to theirs, and at the same has a right to use the franchisor's trademark. The distribution of any other products but those made by the franchisor and signed as such is prohibited. The relationships between the parties are less rigid than under a retail franchise;
- **a franchise for the use of a trademark** (or a name of a public person) serves the purpose of boosting turnover through the strengthening of positive associations. Customers equate the franchisee with the franchisor; both partners use the same symbols and logo to indicate that they are equal in reputation;
- **a franchise for the manufacture of a product or for product manufacture limited to a designated territory and a specific period.** The franchisee receives a complete and obligatory specification that details how products must be made and distributed in the specified market and time frame.

Other classifications can be created using, for instance, geographical, economic, social and cultural criteria. Franchising is used to operate real estate agencies, travel agencies, coffee shops, restaurants, brand stores, personal service establishments (providing hairdressing, dental, cosmetic, medical, and photo services, etc.), hotels, petrol stations, law offices, apothecaries, language schools, and others. Some franchise brands, such as McDonald's, Kentucky Fried Chicken (KFC), Coca Cola, Pizza Hut, KODAK, SHELL or Statoil petrol stations, the British School, Levi Straus & Co. or Big Star have become global players.

The most expensive global brands are Google, Microsoft, Coca Cola, IBM, and McDonald's, with some of them are valued at over US$ 100 billion. By entering an international network, a franchisee benefits from its economies of scale. The best franchise in the 2010 Franchise 500 ranking was the fast food company Subway, which won it for the 9th time in the last ten years of its history on account of its growth strategy built on low franchise fees, small-sized establishments, low-priced special breakfast menus and unique salads. All these elements comprise know-how, unpatented but well-protected knowledge that the franchisor develops through trial and error and improves with new experiences. The main components of a franchise package are the following:[6]

- **a trademark** – a legally protected sign that distinguishes its owner from other organisations,
- **know-how** – confidential technical and technological knowledge of how products are made or services delivered,
- **an operations manual** – a detailed description of how the franchise should be run,
- **services that are due to the franchisees –** services provided by the franchisor during the start-up phase as well as during regular business activity,
- **fees** – the amounts that the franchisee should pay to the franchisor (the franchise fee accounts for around 10% of the franchisee's total expenses, royalties stand at 2-5% of the franchisee's net turnover and marketing fees range within 1-3% of the sales).

The reputation of a franchisor, as with any other firm, depends on their financial status, which can be determined using documents and information from banks, suppliers and franchisees in the network. Other useful information that can help a firm decide whether to join a network includes the franchisor's track record, the status of the network managers, financial indicators, and the number of franchisees comprising the network. Potential franchisees must also know upfront what business concept underlies the functioning of the network (they should be aware of their future business), whether the franchisor has been listed on the Companies Register, whether they have ever filed for bankruptcy,

[6] Pakiet franczyzowy, http://franchising.pl (11 January 2013) and Pakiet franczyzowy, http://msp.nf.pl

whether the agreement includes a geographical exclusivity clause, and whether the expected turnover is realistic.

The above list of issues that need to be considered in relation to a franchise agreement is, however, much longer, because franchise networks have an effect also on third persons – the customers. The early franchise agreements were not regulated by law, but over time governments realised that some kind of legislative intervention was necessary. This conclusion was based on the fact that some franchisors would build various practices into franchise agreements that disadvantaged their franchisees, other networks and customers and were likely to obstruct the development of healthy competition. The regulatory process started with EEC regulation 4087/88 of 30 Nov. 1988 concerning the application of art. 85 § 3 of the Treaty establishing the European Economic Community to franchise agreements. The regulation explained that while franchising was a desirable business model, it had to be regulated to protect competition. It also led to the adoption of the same definition of a franchise agreement across the Member States.

The regulation sets franchise agreements in a general legal framework. It concerns vertical arrangements in the distribution business and provides guidelines that explain in detail how aspects of franchising should be interpreted (Wojtaszek-Mik 2001, p. 27).

As the economy never stops changing, the various concepts of franchising evolve too. The presentation of franchise agreements would not be complete without a short description of the rules applying to their termination and of the most common reasons for their termination. These include:

- a franchisor’s decision to leave the system,
- a franchisor’s decision to go back on the agreement,
- a franchisee’s decision to withdraw from their business.

The most frequent causes of **withdrawals from franchise systems** are the following (Stawicka 2009, p. 50):

- financial considerations,
- wrong geographical location of franchise unit(s),
- increases in rent,
- notice from the landlord to leave the premises,
- the franchisee(s) failing to comply with the terms of the franchise agreement,
- problems in the management of a group of independent entrepreneurs in the network.

Franchisees usually terminate an agreement because of a change to its terms and conditions. Most franchise agreements are rather specific in describing the consequences of various situations that may occur between the franchisor and the franchisee. The franchisor may, for instance, attempt to revise the original franchise agreement. If the franchisee concludes that the change hurts their business (a good example would be an increase in royalties), they usually leave the network. All franchise agreements have clauses explaining how and when an agreement can be dissolved. If both parties decide that their agreement should be dissolved, they make identical declarations that they intend to do so. Franchise agreements must also provide for a one-sided termination of the relationship, either after a notice period or immediately. A precise indication of when this action is legitimate protects the parties from legal disputes. There must also be a clause allowing both parties to go back on the agreement. Clauses setting out the reasons for ending an agreement are of crucial importance, because they help avoid many ambiguities as to the parties' rights and obligations and facilitate mutual settlements following the termination of an agreement (Stecki 1994, p. 197). A franchise agreement must address various situations, such as the franchisee deciding to withdraw from the network following the sale of the company, etc., as well as indicating the conditions which must be met for their continued functioning in the network. The franchisor must have the right to decide whether a franchise will be maintained or ended, as well as a pre-emption right to a unit. An agreement may also grant the franchisor a right to repurchase the items that the franchisee bought from them. However, the pre-emption right and the repurchase right become exercisable only when the franchisor gives up on cooperation with the new owner of the franchised company (Stecki 1994, p. 193).

Franchise networks generally perform very well in Poland, although some of them have been disbanded. Their success should be attributed in part to the general improvement in entrepreneurship in Poland, but mainly to the efficacy of this business model, which has been confirmed by the steady increase in the number of franchise networks in Poland after 1989.

## 3. Franchising in Poland and European Union

The expansion of franchising as we know it today started in Poland with the return of economic freedom in 1989, but a licence-based model of doing business appeared as early as the 1950s, with Bank PKO BP and Poczta Polska (Polish public postal service) establishing their first „ajencje" (agent-operated offices). In addition Orbis (a Polish travel agency) chose franchising in the 1970s, first cooperating with foreign hotels to create a hotel network and a reservation system in Poland, and then using it to privatise the company. For several years travel agencies with the “Orbis” logo were operated by private franchisees (former Orbis employees) who established their own firms. “Hortex”, a frozen foods and branded juice company, also adopted franchising as a business model following changes in its ownership structure.

Franchising came to Poland in 1989 with the French company Yves Rocher and its first perfume shop being opened by a franchisee. Other foreign operators (e.g. McDonald’s) that came afterwards were setting up networks to test the market, because investment risk in Poland at the time was rather high. The ranks of franchisors were soon joined by Polish entrepreneurs. The pioneers were the owners of the A. Blikle cake shops, of the coffee shop “Pożegnanie z Afryką” (Ziółkowska 2011, p. 22) and of the restaurant Mr Hamburger. The next one was the Silesian fast-food company “Pakt”. The consolidation of the franchise market was brought about by the establishment of the PROFIT System consulting company (specialising in the compilation of franchise packages), the creation of the first Polish portal on franchising (Franchising.pl), and the publication of the Franchising Info magazine. The first All-Poland Franchise Fair (Ogólnopolskie Targi Franczyzy) was held in Warsaw in 2003 and has turned into an annual event. The fact that 100 new systems are established in Poland every year leaves no doubt that the business model continues to gain in popularity.

Between 1989 and 2010 the number of franchise systems in Poland rose from only 2 to 660[7] (or 739, according to the same source). In 2013, there were already 930 franchise systems. It is estimated that after 1989 their number was growing at an annual rate of ca. 20%, naturally much faster in first years of that period. The systems’ turnover has increased by around 15% a year. The number of franchised companies doubled between 2002 and 2007, as a result of which their 2007 sales amounted to as much as 72 billion PLN, 45% more than a year earlier. Table 1 below illustrates the expansion of franchise systems in Poland.

**Table 1. Franchise systems in Poland between 1989 and 2013**

| Year | No. of systems | Year | No. of systems (2nd version) |
|---|---|---|---|
| **1989** | 2 | **2001** | 142 |
| **1990** | 4 | **2002** | 173 |
| **1991** | 7 | **2003** | 213 (216) |
| **1992** | 13 | **2004** | 251 (256) |
| **1993** | 17 | **2005** | 298 (309) |

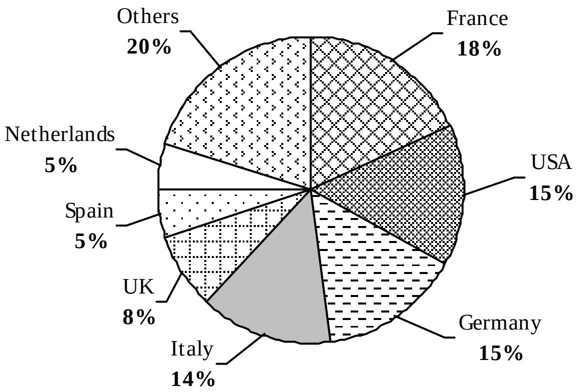
[7] Prepared based on a Profit System’s publication www.profitsystem.pl and Raporty o rynku franczyzy w Polsce 2011, 2012 and 2013, Profit System.

| | | | |
|---|---|---|---|
| **1994** | 23 | **2006** | 312 (328) |
| **1995** | 31 | **2007** | 382 (402) |
| **1996** | 43 | **2008** | 480 (512) |
| **1997** | 60 | **2009** | 565 (618) |
| **1998** | 77 | **2010** | 660 (739) |
| **1999** | 95 | **2011** | 805 |
| **2000** | 119 | **2012** | 864 |
| | | **2013 Forecast** | 930 |

Source: developed by the author based on www.profitsystem.pl and Raporty o rynku franczyzy w Polsce 2011, 2012, 2013, Profit System.

The fact that the number of franchise systems in Poland has doubled in the last five years implies that franchised companies have successfully resisted the impacts of the financial crisis. The domestic franchise systems, too, have shown a satisfactory growth trend. In 2002 they outnumbered foreign systems for the first time, and now they account for over 80% of all franchise networks in Poland. The number of franchise units increased as well. Between 2005 and 2010 it more than doubled and the 2013 estimates point to almost 55,000 units. Foreign franchise systems representing 19 different countries account for 20% of networks in Poland. Most of them (19) come from France, and their main area of operation is the cosmetics industry (Yves Rocher, Jean Louis David, Camille Albane, Franck Provost, Eric Stipa or Frederic Moreno), however other industries are represented too (Intermarché, Bricomarché, E. Leclerc, Cache Cache, etc.). The US, German, and Italian franchisors have also organised strong networks in Poland. The US systems provide business services (e.g. the training provided by the company Leadership Management International) or frequently serve food (the McDonald's network is the largest). The German brands can be found in the clothing industry (Triumph), car repair services (Bosh Car Service) and travel industry (TUI and Neckermann). The Italian franchise systems focus on the production of clothing and footwear. The most important in the structure of foreign systems in Poland are franchise concepts developed in seven countries. Fig. 1 shows foreign franchise systems in Poland by country of origin.

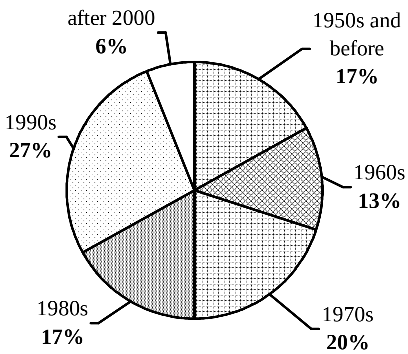
**Figure 1. The geographical origin of foreign franchise networks in Poland - 2013**




Source: http://www.arss.com.pl/pl/publikacje/257-raport-zagraniczne-sieci-franczyzowe-w-polsce-cz-1 (7 March 2014).

More than half of over 110 foreign franchise networks present in Poland have a history of worldwide operations spanning the last 30 years, which means that they are both well-known and proven. Some of them, for instance Spanish Telepizza and British Vision Express, a retailer in spectacles and contact lenses, chose Poland as one of the first locations for their expansion. Figure 2 presents the structure of foreign brands running franchise systems in Poland by time of establishment.

**Figure 2. The time of establishment of foreign franchisors operating in Poland**




Source: http://www.arss.com.pl/pl/publikacje/257-raport-zagraniczne-sieci-franczyzowe-w-polsce-cz-1 (7 March 2014).

In terms of industry, the most foreign brands in Poland have franchise systems in the clothing industry (27%), the food-service industry (14%), the cosmetics and jewellery industries (10%), business services (7%), and the automotive industry (6%). A foreign brand is considered to be successful if it has at least 50 locations in a country. In the case of Poland, this criterion is met by 30 foreign brands. At the same time, Polish brands are attracting more and more interest from foreign franchisees. More than 70 of them have successfully expanded into markets in Austria, the Czech Republic, Estonia, Lithuania, Latvia, Germany, Russia, Slovakia, Ukraine and Hungary.[8] Despite the relatively fast growth of franchise networks in Poland (more than 100 new systems are established every year) there is an increasing need for education in this business model, particularly for new franchisees. The necessity to protect franchisors' interests at home and abroad led to the establishment of the Polish Franchise Organisation (PFO) in 2000, which ten years later became a member of the European Franchise Federation, thus gaining the right to participate in decision-making at the European level. Table 2 shows the increase in the number franchise systems in Poland between 2003 and 2013.

**Table 2. The expansion of franchise systems in Poland, 2003-2013**

| Year | No. of franchise systems | No. of franchise units |
|---|---|---|
| 2003 | 216 | 11,882 |
| 2004 | 256 | 15,962 |
| 2005 | 309 | 18,811 |
| 2006 | 328 | 20,831 |
| 2007 | 402 | 22,784 |
| 2008 | 512 | 27,229 |
| 2009 | 618 | 34,047 |
| 2010 | 739 | 40,760 |
| 2011 | 805 | 48,201 |
| 2012 | 864 | 51,209 |
| 2013* | 930 | 54,750 |

(* – forecast)

Source: PROFIT system, Raporty o franczyzie w Polsce http://franchising.pl/abc-franczyzy/24/ franczyza-w-polsce-rozwoj-rok-roku (7 March 2014).

As can be seen from the data in Table 2, the Polish franchise market steadily expanded in the analysed decade. Because of a more rapidly growing number of **systems in the services industry**, in recent years the market has

[8] Raport o franczyzie w Polsce 2012, www.franchising.pl

become similar to the majority of mature markets in Europe.[9] Franchisees in Poland can choose today from a range of 930 brands, the most popular of which have been for years those related to food-service, foodstuffs and clothing industries. The Polish franchise market is different, however, from the markets in the 17 Member States chosen for analysis on account of its strong growth trend (See Table 3 below).

**Table 3. Franchise systems in 17 selected EU Member States**

| **Member State** | **No. of franchise systems** | | | **Percentage increase between 2007 and 2009** |
|---|---|---|---|---|
| | **2007** | **2008** | **2009** | |
| Austria | 390 | 411 | 435 | 11.5 |
| Belgium | 200 | 240 | 320 | 60.0 |
| Czech R. | 131 | 137 | 150 | 14.5 |
| Denmark | 180 | 185 | 188 | 4.4 |
| Finland | 220 | 255 | 265 | 20.4 |
| France | 1,137 | 1,229 | 1,369 | 20.4 |
| Greece | 544 | 560 | 563 | 3.5 |
| Spain | 850 | 875 | 919 | 8.1 |
| Netherlands | 676 | 669 | 679 | 0.4 |
| Germany | 910 | 950 | 960 | 5.5 |
| **Poland** | **383** | **480** | **565** | **47.5** |
| Portugal | 501 | 521 | 524 | 4.6 |
| Slovenia | 103 | 106 | 107 | 3.9 |
| Sweden | 350 | 400 | 550 | 57.1 |
| Hungary | 320 | 350 | 341 | 6.6 |
| Italy | 827 | 852 | 869 | 2.6 |
| UK | 809 | 835 | 842 | 4.1 |
| **Total** | **9,102** | **9,687** | **10,176** | **16.2** |

Source: developed by the author based on http://franczyza.org.pl/rozwoj-franczyzy-w-europie.

In the ranking of franchise systems in the 17 selected EU countries that the European Franchise Federation developed, according to their growth rates Poland was third, behind Belgium and Sweden, which confirms its important position.

[9] Franczyza&Biznes, Własna firma na licencji no 2 (6) 2014, a publication by franczyzawpolsce.pl

## 4. Conclusions

The above analysis of franchising as a business model stimulating the creation of innovative economic activities in an age marked by a highly competitive environment and very demanding customers leads to the following observations and conclusions:

- **A franchise** is a business relationship based on cooperation between the franchisor and franchisees, which allows the parties to achieve their respective strategic goals in a competitive environment. This capability of franchises is confirmed by their steady expansion despite the economic crisis. A franchise can therefore be understood as an organisational innovation (a modern business model).
- **Franchising is considered the most successful marketing concept** worldwide. It is also recognised as one of the most effective methods for driving economic growth in a country and for expanding into new markets.
- **The popularity of franchising** is growing worldwide, and in Poland as well. The number of franchise brands and franchise units increases every year.
- **The growth in the number of franchise systems** and competition forces franchisors into the development of increasingly attractive offers for potential franchisees. According to the art of economics, a business relationship should be beneficial to everyone and franchising is capable of doing so.
- **The franchise market in Poland** has expanded in the last 25 years at an impressive rate, leaving behind 14 of the 17 analysed EU countries (in terms of growth of franchising, Poland ranks third behind Belgium and Sweden).
- **Domestic brands** account for around 80% of the Polish franchise market. The remaining ca. 20% belongs to 110 foreign systems with over 5,500 units that represent 19 countries. The predominance of domestic systems shows that franchising has become entrenched in the Polish market as a solution enabling expansion through “multiplication”.
- **The maturity of Polish franchise brands** is confirmed by their expansion into other markets in Europe (over 70 Polish brands can be found in Austria, the Czech Republic, Estonia, Lithuania, Latvia, Germany, Russia, Slovakia, Ukraine and Hungary).
- **Franchising may also help reduce unemployment, stimulate entrepreneurship and innovation,** and **minimise business risks**.
- Educational, logistic and price **cooperation between franchisors and franchisees (competitors)** that builds on the strong points of both the big firm and the small firm creates unique growth opportunities for the network, in large part because of the franchisor’s reputation.

- **The future success of franchising** in Poland will depend on the franchise models' innovativeness and ability to innovate, regardless of the type of the industry, its size or location. Education is also necessary, particularly for potential franchisees that need to understand the mechanics of this business concept.

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## Streszczenie

## FRANCZYZA W KREOWANIU PRZEDSIĘBIORCZOŚCI I INNOWACJI

*Artykuł traktuje o franczyzie jako koncepcji prowadzenia działalności gospodarczej na podstawie uzgodnionego przez strony układu ekonomicznego. Dostarcza informacji o genezie franczyzy, uwarunkowaniach jej rozwoju w świecie i Polsce. Prezentuje udokumentowane tendencje wzrostu polskiego rynku franczyzowego z uwzględnieniem rodzimych i zagranicznych marek franczyzowych. Zwraca uwagę na atuty franczyzy pozwalające jej oprzeć się kryzysom gospodarczym, stymulować rozwój przedsiębiorczości i innowacyjności oraz minimalizować ryzyko biznesowe. Zawiera również komentarze, spostrzeżenia, sugestie i konstatacje na temat efektów synergicznych uzyskiwanych w firmach i całej polskiej gospodarce z tytułu zastosowań franczyzy.*

***Słowa kluczowe**: franchising, franczyza, system franczyzowy, know-how, przedsiębiorczość, wiedza, innowacje, konkurencyjność, standaryzacja, ryzyko biznesowe*