



FRANCHISING – A FLEXIBLE METHOD FOR DEVELOPMENT OF THE TRANSPORT SECTOR

Daniela Todorova

“Todor Kableshkov” University of Transport, Sofia, Bulgaria

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Abstract

The problems connected with developing an efficient market mechanism, enhancing the competitiveness of manufactured goods and services and the availability of working market institutions are of crucial importance for the countries that have taken the path of economic integration. During the last few years, franchising as a model for development of business activity gets more popular in Bulgaria. This allows Bulgarian companies to be more competitive and to provide services with better quality. This article will analyze the possibilities of franchise development business, including a transport business. The practice shows that the transport companies which work by means of franchise business model and use the name of a big and well-known company as well as its know-how work much more motivated and economically and with lower costs. This method of performing business is favored by the implementation of the best practices of an already established brand, of the working and well-known business. It provides the opportunity for achieving stable positions at the market.

Key words: *franchising, transport, development, investments*

1 INTRODUCTION

Franchises are mechanisms that allow starting of own business with own investments and risk by using the brand name of the franchisor. For successful development of the business it is necessary for the franchisee to strictly comply with the requirements of the franchise system.

These factors determine franchising as low risky way to start a business activity.

With the shrunk export markets, part of the foreign producers have faced the need for rapid restructuring, reduction of costs and increasing

efficiency by targeting industries that replace imports.

As a result of the franchise agreements one provides the opportunity for more favorable conditions and access to the market of goods and labor force.

This method of performing business is favored by the implementation of the best practices of an already established brand, of the working and well-known business. It provides the opportunity for achieving stable positions at the market.

Address of the author:

Daniela Todorova

[✉ daniela_dt@abv.bg](mailto:daniela_dt@abv.bg)



2 THE FRANCHISING - SPECIFIC FORM OF COMMERCIAL COOPERATION OF THE TRANSPORT COMPANY

In the transport sector the use of franchising as business strategy is a good decision for the enlargement of the market presence of the transport company.

The transport companies which work by means of such a model are characterized with a good competitiveness when performing transports in the country and abroad (mainly of cargoes), shipping services, and mediation. In general the offered transport service is preferred because of the quality and the expertise, with which it is performed.

The practice shows that the transport companies which work by means of franchise business model and use the name of a big and well-known company as well as its know-how work much more motivated and economically and with lower costs.

Widening the range of goods for transportation within the national, regional and international logistical and distribution chains requires the transportation systems to adapt to the new operational conditions. The integrated freight transport services are oriented towards the priorities such as costs, time and reliability of deliveries, thus increasing the role of transportation in creating the value chains. (Kirova, 2013)

Organizations working in the area of transportation and logistics operate with mass amounts of data. Today's problem is not to collect data, but understand collected data and analyze them on appropriate way, to improve efficiency. It is a difficult task.

To create useful data companies must define the most significant indicators and monitor them in time. It is difficult to monitor great number of specific data formatted as tables. Diagrams and charts are much more convenient. But, sometimes it is difficult to keep up to date these graphical presentations. (Čekerevac, 2013)

To meet the customers' expectations and demands in competitive environment, the company introduced previously unknown forms of

activity in the form of significant variety of transport services through specific actions from the management sphere.

Lowering the cost of rolling stock in turn led to substantial travel price reductions and increased the quality of services. Consequently, this resulted in the company's financial results, guided by the criterion of profit, customer satisfaction, and increasing value of its tangible and intangible assets. (Tomaszewski, 2013)

But theoretical and practical knowledge in the field of transport acquired through years has showed that the existence of „perfect“ predefined procedures and rules is not an effective barrier for preventing human errors - they may happen at any time and in any workplace (due to one or another causal factor). (Georgiev, 2012)

As a result of the franchise agreements one provides the opportunity for more favorable conditions and access to the market of goods and labor force. This method of performing business is favored by the implementation of the best practices of an already established brand, of the working and well-known business. It provides the opportunity for achieving stable positions at the market.

When choosing the appropriate franchise system, the following strategy should be kept:

- Correctly defined business activity;
- Information about the partner;
- Mutual business interests with the partner;
- Estimating partner's expectations;
- SWOT analysis;
- Sharing the responsibility among partners;
- Evaluation of risk, as well as the possibilities of taking and sharing the risk.

The dynamic development of the economy provides the possibility for enhancing the use of the franchising as a specific form of commercial cooperation, providing obtaining of profit for a relatively short period of time.

The franchising worldwide has proven itself as one of the most successful business models and is characterized by the lowest risk when starting the business.

The inclusion into a franchise chain provides the entrepreneur who has decided to develop his own business, with the possibility to use the brand of the company as well as its business model.

The franchising is a modern integration process in the field of distribution, sales and consulting in which a company, referred to as franchiser provides the other person or company - franchisee with the right to produce and/or to sale products under observance of specific conditions.

In Bulgaria the first franchise cooperations have occurred in the 70's of the twentieth century, but with the strong growth of the industry in the middle of the 90's this form of business starts developing more and more. In many economic sectors there are present big franchises or chains, which use franchise.

With the acceptance of Bulgaria into the European Union in 2007 the attractiveness of the country has increased, which from its part has attracted more investments and franchising. The perspectives are directed towards enlargement of the market of goods and services by means of use of more renowned commercial brands.

This growth and strong development is observed in the last few years when in Bulgaria there is a growth of foreign and Bulgarian franchisers developing business at the Bulgarian market. Currently 119 companies have working franchise chains.

In 2014 the venues in Bulgaria which exist under the form of franchise are 3368 which is 16% growth in comparison with the previous year. The statistics shows that averagely per one franchiser in Bulgaria there are 28.4 venues, which is due to the big chains which form the great number of franchisees.

The franchising is a bilateral contract by means of which the franchiser provides license or gives permission for the performance of a specific business by the franchisee, under the name and the commercial brand of the franchiser and with use of the given by the franchiser methods.

The average term of the contract of franchising is 4.5 years. Interesting is the fact that the own venues of the franchisers are 16% of all working

venues and the other 84% are owned by the franchisees.

Under the conditions of economic and financial crisis the franchising business model provides opportunity for developing a business, as it gives to the entrepreneur more safety and warranty for success, setting great store by a well-known and safe brand.

The entrepreneur can have the desired success without having great investments and under observance of the specific contractual agreements with the franchiser. The Bulgarian franchisers are competitive with regard to the world companies and are able to impose their brands and know-how.

The development of the franchise models in Bulgaria is directed mainly in the sphere of services. One accounts a serious growth in the last years of the number of companies, offering franchising. This development especially in the present complicated economical period has been originated by the possibilities, which the franchising gives for starting or enlarging a particular business by the entrepreneur. Franchising business have traditionally good positions with the fast food chains.

The use of franchise model in 2014 in Bulgaria has enhanced its specter of operation, as from which there have made use for development of business owners of companies in the tourist sector, bakeries, sport shops, car washes, car garages etc.

Typical for the market is that the Bulgarian manufacturers are more and more developing franchise chains of stores in which they sell their products.

The coming out at foreign markets is a necessity for the Bulgarian companies. This provides them with possibility for stabilization of the business, popularization of the product, as well as with conditions for realization of a bigger profit.

The franchising is one of the safest ways to start business with small own capital compared to the business enterprise by itself.

In Bulgaria there are mainly small and middle sized enterprises, which cover 76% of the

employees and ensure 61% of the total added value. This phenomenon is observed in the other countries of the European Union. The economic crisis has put under strong impact the companies and have pressed them to increase the productivity and to enhance their markets.

After the entrance of the country into the European Union the number of the small and middle sized enterprises grows annually and the Bulgarian entrepreneurs have adapted themselves to the new conditions which the rules of EU and the Common Market has created. One has provided opportunity for the small and middle sized enterprises easier to make use of the commercial brands and to protect their patents.

The small and middle sized enterprises are flexible and easily adaptable to the changeable economic conditions. However, the lack of financial funds for development of the small and middle sized business lead to the bankruptcy of many companies.

Therefore the use of franchising strategy is extremely appropriate for the existence and development of the small and middle sized enterprises and their connection with the big business. This determines them as most appropriate purchasers of franchise.

The franchising is one good perspective for development of the Bulgarian economy which provides Bulgaria with the opportunity to attract foreign experience and capital into the country.

This allows the improvement of the quality of servicing in the various economic sectors, to acquire know-how and to achieve world standards set by the corresponding brand.

It is important with the franchising how big the term of return ability of the made investment should be. Depending on the model of franchising, on the economic sector and on the type of business this term of return ability of the investment for Bulgaria is from 2 months to 5 years as it mainly depends on the possibilities of the franchisee.

The presence of managerial and commercial experience, creativity, flair and innovation in the business provide possibility for quicker achievement of the desired result for sales and in the meantime quicker return ability of the financial funds by means of the realized profit.

In the performed study of the franchising business market in Bulgaria, made by Franchising.bg. (2009)¹, the results show that among the companies at the Bulgarian market, which work by means of franchising, 48% from the franchisees have their investment returned for one year, 31% for two years, 21% for three or more years.

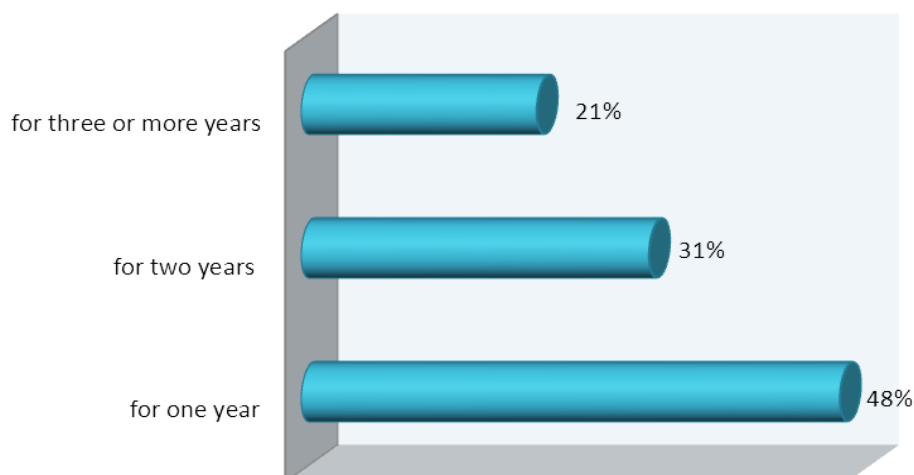


Fig. 1. The investment return using franchisees

¹ The study has been performed by means of filling of questionnaires and phone interviews, as there

have been participating 144 franchiser and 385 franchisees, working at the Bulgarian market.

The practice which Bulgaria has in the use of franchising for development of business, for the people, who are interested and have possibility to purchase franchise rights, are of the following groups:

- Serious entrepreneurs, who have managerial experience, available money funds for investments and interest for developing a new business.
- Second group of entrepreneurs, who make use of the developed business model and apply it directly for starting an additional business.
- Market participants starting new business, who put a stake on the well-known and safe brand, as well as who make use of the offered know-how for managing the business.

- Entrepreneurs directed towards European funding for starting their own business.

By means of this way of co-funding the low budget franchises could quickly turn into national chain of stores. In Bulgaria the average value of the primary franchising fee which is paid once is to the amount of 9,141 EUR.

It is used when opening a new venue for initial marketing researches, advertisement, personnel training, specialized training of the manager, equipment, furnishing etc.

Buying of franchise brands and the development of the franchising are often influence by some of the following factors:

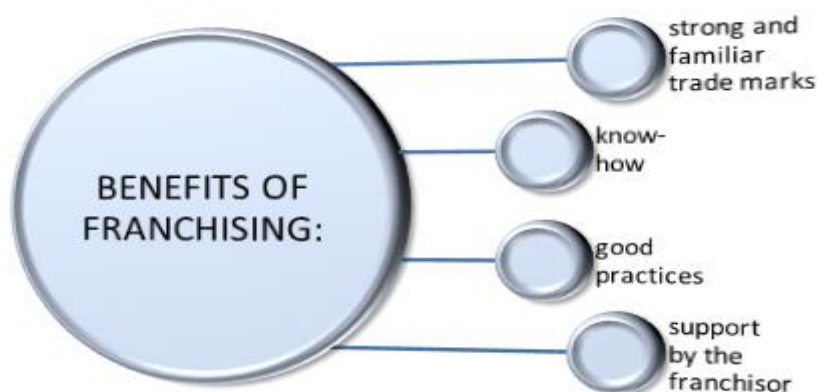


Fig. 2 Factors of influence of franchising

Typical are two main types of franchising depending the forming of the franchising system:

- Primary - one creates a new system for the purposes of the franchising the business.
- Secondary - existing systems are set towards the new business.

In Bulgaria there are great opportunities for development of the franchise business. This is due to the fact that in all economic sectors there could be applied the good franchising practices as one builds national chains for various types of services, including educational ones.

In the present economic situation in Bulgarian the observed increase of the number of franchise business models is made by the ever increasing competitiveness between the enterprises and the manufacturers of certain types of goods and

services, as from significant importance there is the consumers demand and the quality of supply.

The national companies working with franchising are successful in realization of a competitive model for business development as they perform transfer of marketing, management and production technologies, knowledge and experience.

The use of franchising for starting and developing a business making use of the power and the name of the established at the international market brand is proven working and winning model. It is a precondition for certain success especially under the conditions of economic crisis, since it provides possibilities for quick development of the various franchise concepts.

As a result of a scientific research, 55 % of the respondents have bought the franchise because

of the strong brand, 62% of them wanted to be part of the national commercial chain and 75 % have been ready to buy know-how to start a business (Fig. 3). (Anon, 2009)

The franchising has serious potential for development and is appropriate for use in all sectors of the economy, since there are still whole sectors and market niches in Bulgaria, in which no franchise system is working.

The franchising is especially appropriate form of cooperation and sale of business services with

small companies which have capital, but lack enough business experience.

We must not consider the franchising as being used for saving unsuccessful companies, to the contrary - it is a model, by means of which the successful business practices are being multiplied.

The franchising provides the opportunity for quicker entrance to the national and international market. It is one successful business formula in which one combines low risk, quality and strong control.

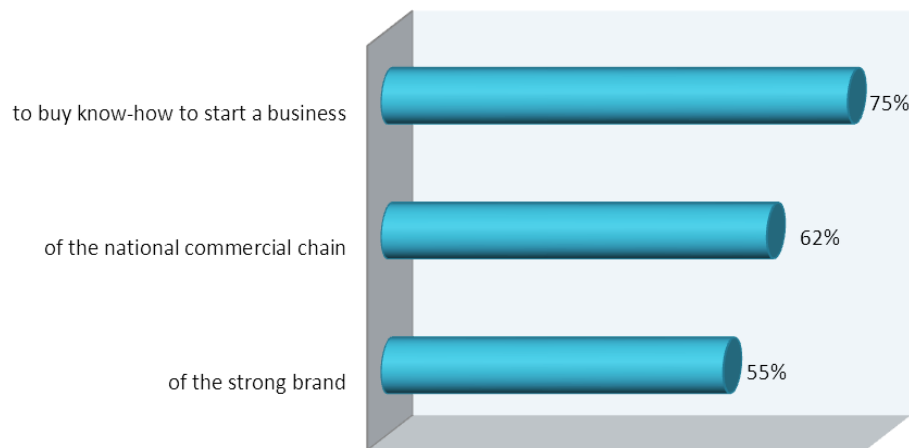


Fig. 3 Opportunities of use of franchising

In contemporary environment of global economic and financial crisis, companies within the transport sector in Bulgaria are experiencing increasing financial difficulties. This gives raise to probability of companies' insolvency and as a result of this their bankruptcy. To avoid these adverse situations, managers should continually analyze and evaluate the degree of financial risk. (Vaisilova, 2013)

To meet the customers' expectations and demands in competitive environment, the company introduced previously unknown forms of activity in the form of significant variety of transport services through specific actions from the management sphere. Lowering the cost of rolling stock in turn led to substantial travel price reductions and increased the quality of services.

Consequently, this resulted in the company's financial results, guided by the criterion of profit, customer satisfaction, and increasing value of its tangible and intangible assets.

The increase of the competitiveness of Bulgaria's economy requires implementation of adequate and rational economic and social policies.

The main objective of the economic policy of Bulgaria is focused on socio-economic integration of the country as an equal member in the EU achieving higher economic growth and increased competitiveness.

The growth, restructuring and stability have to be combined not to oppose them each other.

To improve the quality of life it is necessary to pursue a policy aimed at increasing incomes, the rate of employment, social justice, and free access to education, science and public health system.

Under the condition of a global economic and financial crisis the EU funds are the safest financial instrument. One of the measures to fight against the crisis is to stimulate investments. If you disregard the crisis, the limitation of financial resources leads to the implementation of fewer projects.

On the other hand, if you consider the long-term benefits of investments and their impact on the economy as a whole, they are a necessary and indispensable element that affects economic development of the country.

The professional and rational utilization of these funds will contribute to the socio-economic cohesion of Bulgaria's economy with the

economies of the EU member states. The achievement of good results and high competitiveness will lead to a better life of people.

The economic policy of the state is of essential importance to achieve high competitiveness. The state should create conditions, favorable business environment to increase competitiveness of companies. (Simeonov & Lambovska, 2012)

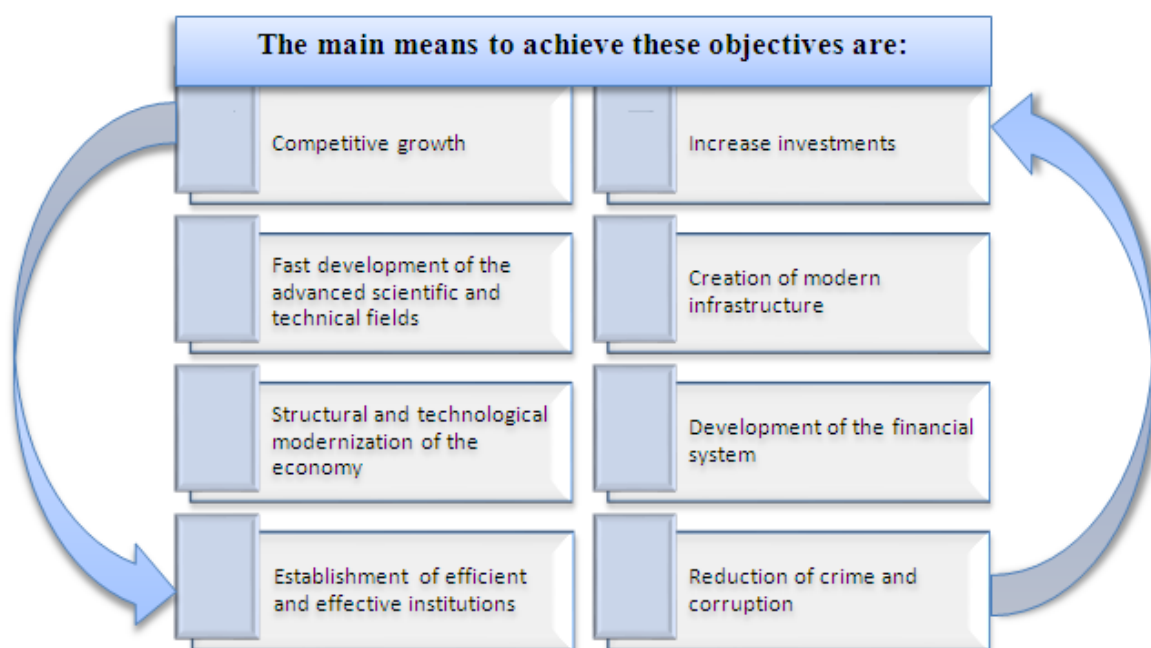


Fig. 4 The main means to achieve high competitiveness

The national productivity directly depends on the productivity of companies. It cannot be competitive without the existence of competitive companies operating in it.

That requires highly-qualified human resources, better information, more modern infrastructure, more intensive competition.

The development of any sector of a modern economy is connected with the balance of resources, production and consumption.

The discovery and use of the possibilities of human capital, innovations, stimulation of investments, competitiveness, modernization and the desire to constantly improve the quality of services offered are the key factors for economic growth.

Besides advantages, of course, the franchise systems have also their disadvantages, which result in conflicts and complicated situations

between the franchisee and the franchisor. Mainly they are related to the know-how. It is very important for the franchisee to strictly follow the good practices of the franchisor.

Sometimes the problems arise from the quality of the services provided. Consequently the choice of an appropriate partner is a determinant factor that influences positively the development of the business and the image of the company.

As a result of the analysis above, franchising could be defined as a successful method for development of every business activity, including the transport activity, as it uses the brand of an approved company.

During the last few years, franchising as a model for development of business activity gets more popular in Bulgaria. This allows Bulgarian companies to be more competitive and to provide services with better quality.

3 CONCLUSIONS

Franchising could also be defined as a sustainable method for the development of the transport sector. The companies that are managed through franchising achieve lower costs and better economic indicators, like higher profits and bigger market shares.

Franchising in the transport sector is a “winning formulae” as it supports the development of intermodal transport services, renewal of rolling stock and employment of qualified personnel which contribute to better development of the company and strengthening of its image.

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