

Original scientific paper
(accepted November 16, 2020)

FRANCHISING IN MACEDONIA – OPPORTUNITIES AND THREATS

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Abstract

Franchising as a business model is present in the global economy in the current form from the 1950-ties and from the moment Ray Kroc started with McDonald's franchising system. Worldwide, this business model has proven itself an excellent way to grow and geographic expansion of the business. Many different and famous companies are using franchising to grow their business, but since the 1990-ties franchising has been part of the western and developed world.

Franchising in Macedonia is present since the beginning of 1990-ties and starting the market economy and its independence. But although there are some movements, franchising as a way of growing business and creating new ventures did not develop in Macedonia. Thus, the paper aims to understand this situation's reason and identify opportunities and threats franchising in Macedonia face.

The first part of the paper gives a literature review on franchising and research on franchising in Macedonia. In the second part of the paper, a current franchising situation in Macedonia is provided. In the third part, empirical research is presented. The study investigated the measurement of perceptions about the perspectives of the development of franchising in Macedonia. Short empirical survey results were compared with similar research conducted in Croatia in 2006 (Alon, Alpeza and Erceg, 2007) and 2014 (Alpeza, Erceg and Oberman Peterka, 2015). The research results were presented in the form of a PEST analysis. Finally, in the last section, conclusions and the proposals for further research are given.

Keywords: franchising, business model, growth opportunities, Macedonia

JEL classification: M19; M21

INTRODUCTION

Franchising is present in the world economy already for a long time. In the beginning, it was more connected to collecting taxes than with commercial matters. Although the franchising started in Europe, its real growth and success are connected to the USA. In the late 19th-century, the first franchise systems began with operations (Singer, Coca-Cola, General Motors, etc.) Soon other companies started to use franchising as a growth method. But all these systems were not with standardizes products and services. Franchising in a current form is present in the world economy from the mid-1950-ties when Ray Kroc became an exclusive McDonald's franchisee. He introduced the so-called "sellers suite" (Erceg, 2017), which, in addition to the appearance and atmosphere of the business decor, includes every detail based on which business is done. That created the boom in the franchise industry. Franchising, as a business model, started to grow and expand to all parts of the world.

After Central and Eastern Europe opened to the market economy, franchising came to the Balkan area (Slovenia, Croatia, Serbia, Macedonia, Bulgaria, Albania, etc.) (Erceg, 2019; Grünhagen et al., 2019). Although it is essential to state that there were

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franchising systems in the mid and late 1980-ties) (Alpeza, Erceg and Oberman Peterka, 2015), there were franchising systems in the former Yugoslavia. Franchising soon started to expand business (as franchisor) and create new ventures (as franchisees). But still, franchising never developed in this area as in some of the countries of Central and Eastern Europe.

Thus, the paper's central research question is the current franchising development situation in Macedonia and the opportunities and threats for further franchising development. In the first part of the paper, a literature review about franchising is given with a particular view of Macedonia's franchising research. In the second part, based on the empirical research among bankers, lawyers, and consultants, an overview of franchising opportunities and threats in Macedonia is given. In the final part of the paper, conclusions and proposals for further research are presented.

1. LITERATURE REVIEW

Franchising as a growth model is used for a long time in the global economy. Some authors state that franchising can be seen in old China and the Roman Empire (Senate-Governors relation) (Tarbuton, 1986). During the Middle Ages, it was used in continental Europe to allow cities to hold fairs. In the 18th and 19th century it was used for enabling pubs selling certain beer brands. Modern franchising was first time used at the end of the 19th century when Isaac Singer started his franchise (Dougan, 1998). Soon after, the big companies began to use franchising for their growth. The major push for the development of franchising was in the mid-1950-ties and the McDonald's story. Boroian and Boroian (2001) defined that franchising occurs when a company (franchisor) licenses its brand and way of doing business to another company (franchisee), which agrees to work following the franchising contract. Michael (2000) stated that both parties involved in franchising are legally dependent but economically interdependent. Therefore, Emmerson (1990) noted that franchising as a business model is examined from a legal and economic perspective as a possible alternative for different distribution and production integration into a single enterprise.

Many authors researched the advantages and disadvantages of the franchising business model. Shane (2005) states that rapid growth enables economies of scale to be achieved with minimal investment. With the essential advantage, the three primary resources, managers, money, and time, are provided by the franchisee. Murray (2003) adds faster growth, better managerial characteristics, and local knowledge advantages. On the other side, Spasić (1996) states the following benefits for franchisees: lack of knowledge and experience can be compensated by training, use of a successful and well-known business name and reputation, and smaller initial capital to start a business.

Similar to the growth of franchising use in the global economy, researchers started examining franchising and its influence on the economy. In their studies, they discussed different franchising viewpoints and perspectives. Some researchers tried to explain the reasons for franchising through other theories such as resource scarcity theory (Oxenfeldt and Kerry, 1968; Castrogiovanni, Combs and Justis, 2006), agency theory (Norton, 1988; Eisenhardt, 1989; Lafontaine, 1992), property rights theory (Mumdziev and Windsperger, 2011), institutional theory (Combs, Michael and Castrogiovanni, 2009), strategic deviance theory (Kidwell, Nygaard and Sillkose, 2011), etc. The theories used to explain the use of the franchise business model as a

method of growth and expansion of companies can be viewed through three perspectives: the perspective of the franchisor's company, the perspective of the franchise system, and the perspective of the franchise system environment (Erceg, 2017). All these studies gave additional insight into franchising from different theoretical perspectives. The diversity of new theoretical directions in the franchise business model study indicates the further need to research the franchise business model by asking new questions and research implications.

Besides studies on why franchising is used as a growth model and way to start new ventures, other authors also examined various franchising models. From 2000 to 2010, there are more than 80 different scientific papers about franchising covering different viewpoints from entrepreneurship, finance, management, and marketing (Dant, Grünhagen and Windsperger, 2011). Similar research conducted by Young and McIntyre (2011) presented a list of research papers where the majority investigated the business model's franchisor side but from different perspectives. (Table 1)

Table 1. International Society of Franchising conferences 1986-2010 paper topics

1986-1999		2000-2010	
Topic of paper	Number of papers	Topic of paper	Number of papers
Franchise Management	69	Franchise Management	106
International Franchising	67	Performance & Growth	92
Relational Issues	57	International Franchising	53
Performance & Growth	50	Legal & Political	52
Legal & Political Issues	43	Relational Issues	47
Marketing	36	Marketing	33
Nature & Scope Franchising	35	Entrepreneurship	18
Economics	12	Modelling & Methodology	15
Entrepreneurship	12	Knowledge Transfer	13
Modelling & Methodology	9	E-Commerce/Internet	9

Source: adapted from Young and McIntyre, 2011: 15

The previous table shows the ranking of different franchising research topics and papers presented at conferences organized by the International Society of Franchising. As can be seen, most papers relate to franchise management, performance and growth, and international franchising. These three topics are the essential characteristics of the franchise business model since to have good performance and development, and franchisors have to take care of franchise management. After the franchisor has become a recognizable brand on the domestic market, it is crucial to growing further to the international market where the franchise system sometimes needs to be adapted. Thus, this topic is of great importance for the further success of the franchising system.

Another important research topic is the relationship between franchisor and franchisees. During the duration of the franchise business model, the franchisor learns and grows in business. The franchisee changes his relationship with the franchisor, thus creating an interdependence that develops more and more with the duration of the franchise relationship (Che, Liu and Zeng, 2010). For the franchise system's success, the franchisor needs to be one step in its development ahead of the franchisee to influence the franchise system's further development positively. Since this is a changing relationship, there is a clear understanding that building equity is a significant aspect of purchasing a franchise. That means a productive franchisor-franchisee relationship is a long-term strategic relationship that brings value to both parties. When the franchisee does not earn more than his salary, the association is terminated (Spinelli, 2000).

Many authors examined opportunities and threats for the development of franchising worldwide. Alon (2004) found that lack of capital, lack of entrepreneurial and managerial talent, and insufficiently developed infrastructure affect franchising development. Sanghavi (1998: 38) found that in transitional economies, there are many substantial obstacles for the development of franchising, and some of them, among others, are incompatible business practices, infrastructural deficiencies, underestimated costs of imported ingredients, tariff barriers for input components, the absence or misjudgment of the required demand, the lower purchasing power of the target group, investors, etc. According to Hoffmann and Peble (2004), there are different political barriers, including economic stability concerns and political environment, possible changes. Franchising development is also influenced by socioeconomic barriers (i.e., low income, weak currency, etc.) and technological barriers (i.e., sanitary measures, standards, different regulations, etc.)

1.1. FRANCHISING RESEARCH IN MACEDONIA

Franchising in Macedonia started in former Yugoslavia in 1969 when Diner Adriatic became a franchisee for Diners International for the Balkans area. Their example was soon followed by another credit card company – American Express (Erceg, 2019). Other big companies like Hertz, Intercontinental, Coca-Cola, Pepsi Co, Levi's, Hyatt, and McDonald's started opening their franchise location until the end of 1980-ties (Erceg, 2018; Damoska-Sekuloska, 2018; Vidanović and Milenković-Kerković, 2018). After Macedonia gained independence, a new phase of development in franchising started. The first international franchise system to enter the Macedonian market was McDonald's (Boškovska, 2017).

Similarly, with the start of franchising in Macedonia, researchers started to examine this critical topic for the national economy from different viewpoints. So, we have more than several studies that looked legal side of franchising. Dabovik-Anastasovska (2011) compared franchising agreement in law and practice between Croatia and Macedonia, Jashari and Osmanaj (2016) compared to franchising's legal treatment Macedonia and Kosovo. Sotiroski and Filiposki (2016) conducted the first study, which looked at the Macedonian franchising model's legal and economic aspects. The main research topic was still connected to franchising's legal side, but this research showed that franchising should be examined from an economic viewpoint. They also noted that in Macedonia, due to the lack of adequate information sources, the promotion of franchising attractiveness is disabled.

Besides these legal studies in recent years, there were more than several franchising studies from the economic viewpoint. (Table 2)

Table 2. Research about franchising in Macedonia

Authors	Topic
Jordanovska and Polenakovikj, 2013	Franchising as a form of starting SMEs
Boškovska, Nikolovski and Polenakovikj, 2016	Influence of the relationship between franchisees and franchisor on franchising system success
Sofijanovska and Stoimilova, 2016	Franchising as a support for the growth of small businesses
Terpo, 2016	Administrative conditions for the use of franchising for SMEs
Damoska Sekuloska, 2018	Review of franchising situation in Macedonia
Musliu, 2018	Specification of the franchising relationship
Damoska Sekuloska and Erceg, 2018	Use of smart contracts in Franchising

Based on the previous table, one can notice that franchising research is still a novelty in Macedonian academic circles. That can be related to the fact that franchising as a business model is still in development. There were two studies in the last two years (Erceg, 2019; Grünhagen et al., 2019) that looked at the Balkans area's franchising situation. Both studies examined the situation in Macedonia and got similar results. The research studies on franchising are relatively new in Macedonia, which can be related to the number of franchising systems and their novelty in the Macedonian economy.

2. FRANCHISING IN THE MACEDONIAN ECONOMY

As was previously stated, McDonald's was the first international franchise in the Macedonian market after Macedonia gained independence. There are currently more than several known franchises operating in Macedonia, and they include Dominos, Mango, American Express, Burger King, Fornetti, and Coca-Cola (Sotiroski and Filiposki, 2016; Terpo, 2016; Boškowska, 2017). Master franchisees for most Macedonian franchise systems are from Turkey, while the Fashion Group holds franchise rights for most fashion franchise systems. Although McDonald's was the first to enter the Macedonian market in 1997, in 2012, they decided to stop their operations in Macedonia. At that time, they had six operating locations.

There is no database of franchise systems operating in Macedonia, and none of the institutions is overseeing collecting franchising data (Damoska Sekuloska, 2018). Sofianova and Stoimilova (2016) indicated that ten franchises were operating in Macedonia, Boškowska, Nikolovski, and Polenakovikj (2016) presented data gathered from 30 systems. Their findings revealed that franchise systems have two or fewer outlets. The latest research (Boškowska, 2017) showed 70 franchises present in Macedonia at 130 locations in 8 different sectors (Figure 1). Another study by Sotiroski and Filiposki (2016) stated that franchising systems are currently operating in 9 sectors in Macedonia.

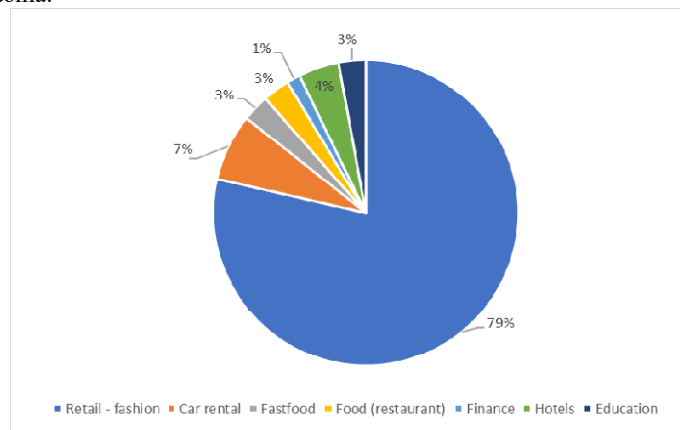


Figure 1. Franchising systems in Macedonia
Source: adapted from Boškowska, 2017

Based on available data, there is no domestic franchise in Macedonia. Macedonian national association for the franchise was founded for the second time in 2018 to promote further franchising use. Grünhagen et al. (2019) state a lack of large shopping centers and modern retail structures is one reason for the low development of franchising in Macedonia. Sotiroski and Filiposki (2016) further state unclear rule and lack of loans, while national government policy is still not promoting entrepreneurship and franchising.

3. METHODOLOGY AND DATA

For this paper, we conducted a survey used in qualitative longitudinal research in Croatia (Alon, Alpeza and Erceg, 2007; Alpeza, Erceg and Oberman Peterka, 2015). Croatia's survey was used to measure perceptions of franchising development perspectives in Croatia in 2006 and 2014. The same population was used for questioning (consultants for SMEs, bankers, and lawyers) with the same predefined questions. The questionnaire had eight open questions in which participants were free to put their opinions on the set questions.

This paper's research results represent five SME and franchise experts' attitudes, five bankers, and five lawyers (in total, 15 participants). The results were presented in the form of a SWOT and PEST analysis. After that, we have compared results from Croatia with results from Macedonia to establish similarities between seen opportunities and threats for franchising development in respective countries. Based on the noticed similarities and differences between countries, conclusions and policy recommendations were identified and presented.

4. RESEARCH RESULTS AND DISCUSSION

In the first part of our research, we asked all three groups of participants (bankers, lawyers, and consultants) to name sectors where they see the best potential for franchising business. (Figure 2)

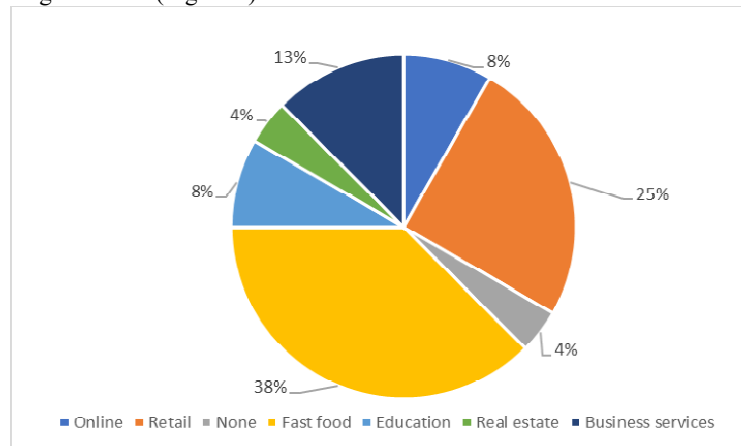


Figure 2. Sectors with the best potential for franchising in Macedonia

Participants see the most significant franchising opportunity in the fast food and retail sector, followed by business services. It is substantial to see that there are participants who are not seeing any industrial sector in which franchising could grow. Besides industrial sectors, participants identified the main operational problems for the development of franchising in Macedonia. Among others, they include high franchise fees, low purchasing power, small territory, low level of education and knowledge about franchising, etc. These answers are almost identical to the results from the studies conducted in Croatia in 2006 and 2014.

In the second part of our research, we asked participants to identify opportunities and threats that franchising faces in Macedonia. (Table 3)

Table 3. Research about franchising in Macedonia

	Bankers	Consultants	Lawyers
Opportunities	<ul style="list-style-type: none"> • New business model • Unsaturated market • Smaller franchises with lower investment 	<ul style="list-style-type: none"> • New business model • Unsaturated market • Not so many systems in the market • Interesting way for business expansion 	<ul style="list-style-type: none"> • There are not so many systems
Threats	<ul style="list-style-type: none"> • Low standard • Low purchasing power • Small territory 	<ul style="list-style-type: none"> • High fees • Low standard 	<ul style="list-style-type: none"> • Small territory • No legal regulation • There is no tradition and culture • High fees

All three groups identified more than several opportunities and threats for further development of franchising in Macedonia. Opportunities include an unsaturated market, not so many franchise systems currently present in the market, the possibility to have a smaller franchise with lower investment. On the other side, threats include the small territory of Macedonia, high franchise fees for buying a franchise, the low purchasing power of inhabitants, and the point that franchising has no legal regulation in Macedonia.

During the research, we asked contributors to identify factors according to PEST analysis (political/legal, economic, social, and technological), which influence their opinion development of the franchising in Macedonia. Answers collected in our research are presented in Table 4 and systemized in a matrix overview. At the same time, we have compared them with a similar study conducted in Croatia in 2014.

Table 4. PEST analysis of factors influencing franchise development in Macedonia

	Results of research in Macedonia, 2020	Research results from Croatia in 2014
Political factors	<ul style="list-style-type: none"> • there is no legal regulation of franchising, • frequent political changes • the economy is under political influence • intellectual rights protection 	<ul style="list-style-type: none"> • the slow and inefficient legal system with consistent changes in legal and tax laws, • inadequate and too slow intellectual property rights protection, • lack of legal experience in regulating franchise as a business concept • franchise agreement non-existent in state regulations, • corruption, • no registry of franchising networks • the potential of franchising for the development of entrepreneurship not recognized at the policy level,
Economic factors	<ul style="list-style-type: none"> • low purchasing power • the economy is not stable • banks not willing to finance start-ups, • the unwillingness of banks for participating in franchise purchase financing, • lack of non-traditional financial products in the market, • small market 	<ul style="list-style-type: none"> • too expensive labor force, • the decrease in purchasing power because of crisis, poverty, • the long time needed for the return of investment, • lack of structural reforms of the economy and its influence in the decrease of GDP, • too small market, • the low capital potential of investors, • banks not willing to finance start-ups, • the unwillingness of banks for participating in franchise purchase financing, • lack of non-traditional financial products in the market;
Social factors	<ul style="list-style-type: none"> • lack of workforce • migrations • lack of knowledge about franchising • lack of education for business • no tradition of franchising, • aversion to accepting new ways of doing business • lack of knowledge and willingness for self-employment 	<ul style="list-style-type: none"> • lack of knowledge on franchising, • refraining from the investment – fear of future, • the high rate of unemployment, • no tradition of franchising, • mistrust of foreign franchisors, • fear of long-term binding by agreement, • fear of undertaking the entrepreneurial activity, • considerable differences in the market potential of different parts of Croatia, • aversion to accepting new ways of doing business • lack of knowledge and willingness for self-employment
Technological factors	<ul style="list-style-type: none"> • small market for technology development • low investments in new technology 	<ul style="list-style-type: none"> • numerous regulations that increase insecurity, • the undeveloped industrial sector, • the decrease in the production of different goods which directs entrepreneurs to import many ingredients in some industries, • low level of computer and internet skills among the population for collecting information on business opportunities

As it is possible to see, there are more than several same factors in PEST analysis between Croatia and Macedonia. However, there is a difference of six years between the two studies. Political factors show that doing business in Macedonia is under the influence of frequent political changes, lack of intellectual rights protections, and a lack of franchising business model regulation. Economic factors are not only unsupportive for franchising but also for any kind of business. Social factors are under the influence of migrations, lack of franchising knowledge, and lack of knowledgeable workforce. Technological factors show no technological development due to the small market, and there are no significant investments in new technologies.

Our research's last question was connected to the participants' prognosis of Macedonia's franchising development in the next five to ten years. Although many franchising development threats and PEST analysis showed additional obstacles, most research participants believe that franchising will be accepted in Macedonia as a business model for business expansion or starting a new venture. But it is essential to state that participants named several activities needed for franchising development, and they include additional education on franchising so entrepreneurs will recognize opportunities franchising can offer.

CONCLUSION

Franchising is entering Macedonia and will become popular worldwide to grow and expand business (as franchisor) and start new ventures (as franchisees). Although franchising is present in Macedonia for more than twenty years, it is still in its early development phases. This can be seen from research (number of franchising systems) and the point that there is still no local, Macedonian, franchising systems.

The conducted research aimed at the identification of opportunities and barriers franchising faces in Macedonia. The identified obstacles can be divided into franchising specific obstacles and general business obstacles. It is essential to state that most of the identified barriers are general, affecting all business entities, no matter which business model they apply. But at the same time, opportunities show that franchising has potential due to the unsaturated market and the fact that there are not so many systems present in Macedonia.

The PEST analysis showed similar results from the Croatian market results, although there are six years between the two studies. The results from research are not showing obstacles for franchising. Still, business in general and thus the future success of franchising in Macedonia is dependent on the implementation of policy recommendations for increasing entrepreneurial activities in general. Based on the research, we could propose the following policy recommendations: removing administrative barriers for entrepreneurial activity, increased focus on entrepreneurship education, creating an informal model of business venture financing, better protection of intellectual rights. To further grow franchising activities in Macedonia in the future, it is necessary to solve the obstacles mentioned above. Thus, it is not realistic to expect a more significant increase in franchising model use.

We propose to continue with the same research within the next five years to find if the situation has changed. Second research should be focused on finding the exact number of franchising systems operating in Macedonia together with their influence on the national economy (i.e., output, number of locations, number of employed people, etc.)

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