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FRANCHISING AS AN EXAMPLE OF CONDUCTING BUSINESS BY SELECTED ENTITIES OF THE WOOD INDUSTRY IN POLAND

Abstract. There are many forms of conducting business. Each offers different opportunities and fits different market conditions. Each has advantages and disadvantages and involves a certain level of risk. In most cases, a company is started from scratch. Franchising gives entrepreneurs entering the market the support of an entity that has already achieved success. It provides a ready idea and verified solutions, which significantly increases the chance of success for such a business. This paper aimed to present franchising as an example of running a business in relation to networks and entities connected with the wood industry. The paper indicates the types of franchises, advantages and disadvantages of this form, and legal regulations that enable and facilitate running a business. It presents companies from the wood industry that chose a way of conducting business based on selected types of franchises. The analysis shows that such a form of business activity works well in enterprises of the wood industry and could be used in this industry on a broader scale.

Keywords: franchise, franchisor, franchisee, wood industry, business

INTRODUCTION

Franchising is a method of doing business that has been spectacularly successful for many years. This is the result of the search for effective and safe ways of doing business during the growth of globalization, increasing competition and intensifying business concentration (Antonowicz, 2010; Keskin, 2016). It is a method that quickly and permanently appeared on the business map. It uses the formula in which a company with a strong market position gathers other units to cooperate in the scope of its activities and under its trademark, which guarantees the venture's success. A franchise is a beneficial solution that

offers the recipient not only a proven business idea but also indicates the way and direction of activity. It is an exciting business idea for the development and operation of SMEs, providing the benefits of proven market concepts and well-known brands to these companies (Grzelak and Matejun, 2013; Abd Aziz et al., 2020).

The report on the franchise market shows that 1,310 franchise chains and 83 thousand franchisees operated in Poland in 2020. Forecasts for 2021 indicate that an additional 2,100 new entities operating as franchises will appear on the market. This confirms that the franchise sector is a significant employer. With the average employment of 5–6 people in each franchise outlet, the

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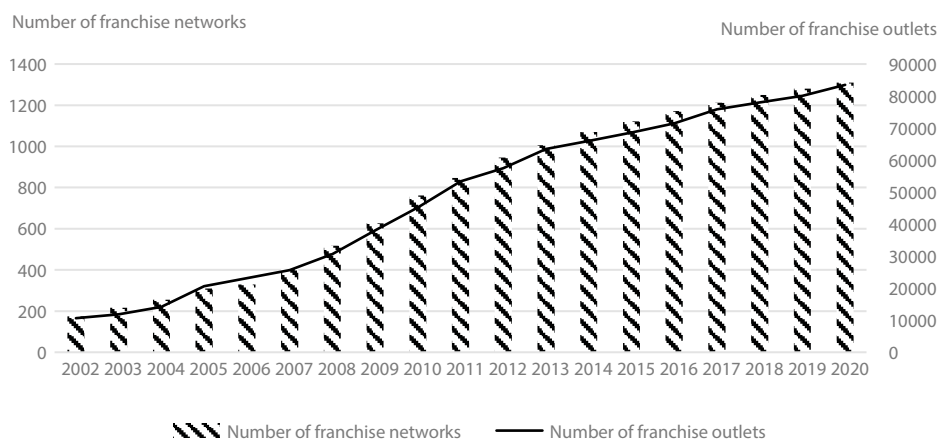


Fig. 1. Number of outlets and franchise networks in Poland between 2002 and 2020
Source: own study based on Wiśniewski, 2020 and *Wiadomości Handlowe*, 2020.

total number of franchise employees exceeds 405 thousand people (Polska Organizacja Fraczyzodawców, 2020). Considering additional cooperating entities, the number of people employed directly or indirectly related to franchising is significant. Figure 1 presents information regarding both the number of chains and outlets operating in Poland in the form of franchising. The list includes information from the first report on the franchise market published in 2002.

The data presented in Figure 1 show that the growth rate has increased since the beginning of reporting of franchising chains and franchising outlets operating in Poland. In the analysed period, it amounted to 749% for franchising outlets and 784% in the case of networks. Moreover, every year there is still an increase in the number of newly created entities. This increase concerns both outlets and franchise networks. These findings demonstrate how intensively this form of business is developing and how big the demand is.

The franchise system impacts business modernization significantly (Díez de Castro et al., 2004). First, it contributes to the development of distribution. It allows the franchisor to expand the market quickly, increasing sales and brand recognition (Kotler and Armstrong, 2013; Raab and Matusky, 2014). Therefore, the franchise system is an interesting alternative to other forms of business.

This paper aims to present franchising as an example of a business model in relation to networks and entities connected with the wood industry.

LITERATURE REVIEW

According to the European Franchise Federation, “Franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its Individual Franchisees, whereby the Franchisor grants its Individual Franchisees the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept” (European Franchise Federation, b.d). This right obligates the franchisee to use the trade name, trademark, know-how, procedures and methods for a contractual period. The European Franchise Federation (EFF), whose members are National Franchise Associations operating in many European countries, has created an ethical code that contains basic regulations and norms of conduct between franchisors and franchisees that cooperate within a network. These rules regulate, among others, the obligations of the franchisor and franchisee. This code was originally created in 1972 and updated in 2016.

The members of the European Franchise Federation include Danish Franchise Federation (DFF), French Franchise Federation (FFF), Portuguese Franchise Association (APF), Slovenian Franchise Association (SFA), Swedish Franchise Association (SFF), Hungarian Franchise Association (MFSZ), Finnish Franchise Association (FFA), Croatian Franchise Association (FIP), Turkish Franchise Association (UFRAD), Greek Franchise

Association (GFA), British Franchise Association (BFA), Netherlands Franchise Association (NFV), Polish Franchise Organization (PFO), Spanish Franchise Association (AEF) and Italian Franchise Association (AIF) (European Franchise Federation, b.d). The franchise agreement concluded between the EFF members must therefore comply not only with national law but also EU law and the EFF Code of Ethics (Franchise regulation, b.d.). The number of countries belonging to the European Franchise Federation shows the importance of franchising for companies operating in Europe.

There are several criteria for classifying franchising in the literature. However, the basic and most common division, functioning in Western Europe, is the one that classifies franchising according to the market segments in which the network is organized, namely service, distribution (commercial), industrial (manufacturing) and mixed segments (Ignaczewski, 2004; Antoszak et al., 2016; Ziółkowska, 2019). A similar classification is applied to choose the criterion, which is the type of business conducted (Table 1).

The franchise agreement is concluded between the franchisor (the entity that establishes the rules of cooperation and offers its logo and support to the cooperating entities) and the franchisee, i.e. the entity that can use the developed position of the franchisee under the established rules (Vaishnav and Altinay, 2009). Each party has its obligations. The franchisor is the custodian of the franchise network. This party runs a successful business and has the right to use the trade name or trademark. It undertakes to provide training to franchisees, gives the franchisee the right to use its know-how and allocates funds to promote its brand and research that

enables further development of the company. On the other hand, the franchisee is obliged to loyally cooperate with the franchisor, according to the terms indicated by the franchisor, to develop the company and the network. The franchisee is required to provide the franchisor with operational data and financial reports that demonstrate the quality of the management of the entity. The franchisee is obliged to maintain the quality of products and services required by the franchisor and disallowed to transfer confidential information to other entities, including know-how concerning the franchisor (Stawicka, 2009; Franchise regulation, b.d).

In Polish law, there are no separate provisions that regulate issues related to running a business under a franchise agreement. However, it does not mean that franchisors and franchisees are not subject to any legal acts. On the contrary, general regulations apply to the entities operating under a franchise agreement and other trade participants (Balcerek, 2013).

The legal norms concerning franchising can be divided into two groups. The first one contains regulations constituting the franchise agreement itself, including the rights and obligations of the parties. The second group includes regulations defining the organizational framework for functioning business entities in the market (Pokorska, 2004). The legal norms having constitutive character are included mainly in the Civil Code and the Act of 2 July 2004 on Freedom of Economic Activity. In the case of the general provisions of the Civil Code, they mainly apply to the franchise agreement. As far as the Act on Freedom of Economic Activity is concerned, it is the legal basis for conducting any business activity in Poland. According to its first article, “[it] regulates the

Table 1. Classification of franchises by business type

Franchise type	Description
Product (or distribution) franchise	the franchisee sells only the specified goods in the outlet operated by it, which is marked with the franchisor's name and arranged in accordance with its instructions.
Service franchise	the franchisor undertakes to make available to the franchisee the know-how and all secrets relating to the provision of services so that the franchisee can offer a service of identical quality to the franchisor.
Industrial & manufacturing franchise	the franchisor undertakes to make available to the franchisee the production technology, know-how and any secrets relating to the manufacture of products so that the franchisee can produce goods of identical quality and with the same external characteristics as the franchisor.
Conversion franchise	the franchisor is the manufacturer, and the franchisee sells products and provides services related to the sale of goods.

Source: own study based on Stawicka, 2009.

taking up, pursuit and termination of business activity in the territory of the Republic of Poland, as well as the tasks of the state bodies in this respect” (Ustawa, 2004).

Other important legal acts containing regulations that can also be applied to franchising are the Act of 15 September 2000 – the Code of Commercial Companies (Journal of Laws of the Republic of Poland of 2000, No. 94, item 1037), Act of 16 February 2007 on Competition and Consumer Protection (Journal of Laws of the Republic of Poland of 2007, No. 50, item 331), Act on amending the Industrial Property Law Act of 29 June 2007 (Journal of Laws of the Republic of Poland of 2007, No. 136, item 958), Ordinance of the Council of Ministers of 30 March 2011 on Exempting Certain Types of Vertical Agreements from the Competition Limitation Clause (Journal of Laws of the Republic of Poland of 2011, No. 81, item 441), Act on the Protection of Intellectual Property Rights of 29 June 2007 (Journal of Laws of the Republic of Poland, No. 81, item 441), Regulation of the Council of Ministers of 30 March 2011 on Exemption Categories of Vertical Agreements from the Prohibition on Restrictive Agreements (Journal of Laws of the Republic of Poland of 2011, No. 81, item 441), Announcement of the Marshall of the Sejm of the Republic of Poland of 8 October 2020 on Publishing the Consolidated Text of the Act on Combating Unfair Competition (Journal of Laws of the Republic of Poland of 2020, item 1913), Journal of Laws of the Republic of Poland of 1993, No. 47, item 211 and Regulation of the Commission of the European Communities No. 330/2010 of 20 April 2010 on the Application of Article 101(3) of the Treaty on the Functioning of the European Union to Categories of Vertical Agreements and Concerted Practices (Komisja Europejska, 2020). All mentioned legal acts are tools that enable and facilitate entrepreneurs to conduct business activity. They specify rules of such activity, define the rights and obligations of franchise agreement parties. Furthermore, they provide safety for entrepreneurs, which is important for establishing a company and its development.

MATERIALS AND METHODS

This study aimed to present franchising as an example of business activity in relation to networks and entities of the wood industry and to present the franchise market in Poland from the point of view of entities operating in this industry. Two companies were selected for presentation,

one of which operates based on trade franchise and the other – service franchise. The choice of companies was random because franchising is not a popular form of doing business in the wood industry sector in Poland. The study used the “desk research” method, in which legal acts, analyses and publications, reports and documents of public statistics were the basis for the analysis. The research focused on franchising from the point of view of entities participating in this form of business. It also indicated legal standards regulating issues related to running a business based on the franchise. The potential of franchising was also demonstrated, especially for small and medium enterprises of the wood industry.

RESULTS AND DISCUSSION

Based on InfoFranchising.pl, most franchising entities operating in the trade belong to grocery stores and services for catering entities (Infofranchising, 2020). In both franchise types, we can also find examples from the wood industry. In trade, the VOX network is such an example, while in service – Sob-Drew, which deals with carpentry. The trade network of VOX stores specializes in the sale of doors, floors and panels. In 2019, most of the company’s outlets were franchise outlets. The company’s information shows that the number of these entities also increased in 2020. The number of owned and franchised outlets of this company is shown in Figure 2.

As a franchisor, VOX provides its franchisees with the necessary information and guidance to help them start and run further their business. For furniture-related companies, the location, display and storage area are crucial. The expected investment amount to about PLN 80.000. From the franchisee’s point of view, the franchise outlet must employ staff who will give professional advice to their customers. Therefore, in the case of VOX, emphasis is put on product and sales training and soft skills training for the management staff. There are also important skills in interior arrangement and training in the use of interior design software. In connection with an option of assembly of the furniture offered to sale, each selling point should have its specialized assembly team (Wojniak-Żyłowska, 2019). According to the franchisor, franchisee outlets reach profitability on average after 6–12 months from opening.

On the other hand, an example of a service franchise in the woodworking industry is the family-owned company Sob-Drew. It is a carpentry company that has been

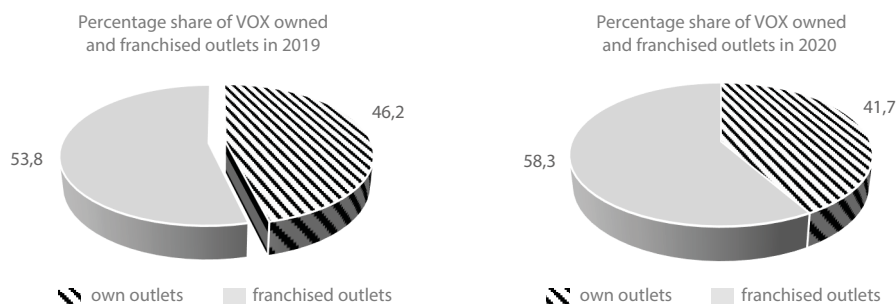


Fig. 2. Percentage share of VOX owned and franchised outlets in 2019 and 2020
Source: own study based on Wojniak-Żyłowska, 2019.

in business since the 1950s. It specializes in manufacturing custom stairs and doors. The company currently has two franchise units. The company has worked for many years to build its brand, so it is looking for people who are reliable, honest and aware of its values. In this case, the franchisor's task is to establish contacts with customers, prepare an offer for the customer, take orders, take measurements, and then send the order to the franchisor who fulfils the order. It is important to have a specialized team of fitters responsible for the installation. Since the production rests with the franchisor, it is not necessary for the franchisee to have experience in the carpentry industry. In this case, franchisees receive training that lasts three to six weeks. The training includes taking measurements, installation, woodworking, necessary carpentry topics, sales and marketing knowledge in preparing offers and drafting contracts. In each of the above-mentioned cases of franchising related to the woodworking industry, a franchisee has to consider costs. These are different in both cases. In a trade franchising, where it is necessary to prepare an exhibition of the product offer, for example, furniture sets, it is necessary to have an area of about 200 m² and a warehouse area. In the case of service franchising, the exhibition area is also necessary; however, due to a much smaller franchisor and smaller scope of its influence, it can be much smaller. The franchisor estimates that preparing an exposition, in this case, costs about PLN 20 thousand. Due to the nature of the service, the cost of purchasing tools necessary for the installation work should also be considered – about PLN 10 thousand. The need to travel to the customer to take measurements and the subsequent assembly of final products also necessitates a delivery truck. Despite the fact that the company has recently secured franchise

units, it booked orders for several months in advance also during the pandemic (Wojniak-Żyłowska, 2020).

CONCLUSIONS

Franchising is one of the most popular ways of doing business in the current market. It is a sales system that can find its followers in various sectors of the industry. It constitutes a kind of cooperation between independent enterprises. It presents the originality of a proven and patented idea on which the franchisor bases its operation. Franchising fulfils the expectations of both parties: the franchisee gains a recipe for success “ready to use”, and the franchiser expands the business, gaining reputation and popularity. On the other hand, this business activity gives the consumer the certainty of purchasing a service or product in a reliable system operating under a well-known brand.

The current nature and structure of the Polish franchise market still allow the companies to choose franchising as a way of development by joining existing systems or making an attempt at creating franchise networks on their own. For many years, the Polish franchise market has been gradually expanding by developing existing networks and introducing new industries and entities into this system. There are examples of companies in the wood industry, for which this is not yet a popular form of business. However, it creates a wide range of possibilities offering tools both in trade and services. Its flexibility and relatively low expenses incurred at the initial stage of business activity may also increase the interest of entrepreneurs, including the wood industry companies. It is possible because Polish entrepreneurs perceive franchising as a safe business idea.

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FRANCZYZA JAKO PRZYKŁAD PROWADZENIA DZIAŁALNOŚCI GOSPODARCZEJ W WYBRANYCH PODMIOTACH BRANŻY DRZEWNEJ W POLSCE

Abstrakt. Istnieje wiele form prowadzenia biznesu. Każda z nich daje inne możliwości i dostosowana jest do innych warunków rynkowych. Każda posiada wady i zalety oraz wiąże się z określonym poziomem ryzyka. W większości przypadków firmę zaczyna budować się od podstaw. Franczyza daje wchodzącym na rynek przedsiębiorcom wsparcie podmiotu, który już osiągnął sukces. Udostępnia gotowy pomysł i przetestowane rozwiązania, dzięki czemu znacząco wzrasta powodzenie prowadzonej działalności. Celem pracy było przedstawienie franczyzy jako przykładu prowadzenia działalności gospodarczej w odniesieniu do sieci i podmiotów związanych z branżą drzewną. W pracy wskazano typy franczyzy, korzyści i niedogodności tej formy oraz regulacje prawne, które umożliwiają i ułatwiają prowadzenie działalności. Zaprezentowano firmy branży drzewnej, które wybrały sposób prowadzenia biznesu na podstawie wybranego typu franczyzy. Na podstawie przeprowadzonych analiz pokazano, że ta forma działalności gospodarczej sprawdza się w przedsiębiorstwach branży drzewnej i może występować w niej na szerszą skalę.

Słowa kluczowe: franczyza, franczyzodawca, franczyzobiorca, branża drzewna, działalność gospodarcza

