FRANCHISING AS A MODERN BUSINESS MODEL FOR SMALL AND MEDIUM-SIZED TRADE ENTERPRISES IN POLAND

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Abstract:
The paper presents the structure of trade in Poland, shaped in the last two decades as a result of the expansion of strong capital traders. Currently, an important place in the economic space is occupied by both large-space outlets, mainly hypermarkets, supermarkets, discount shops as well as small shops owned by local entrepreneurs. In the empirical part, based on the results of the survey conducted in institutions belonging to the Carrefour Express and Leviathan, the author presents the benefits and limitations resulting from franchise systems and their influence on the development of small and medium-sized traders.

Introduction

The foundation of the modern market are coexisting with each other, both large retail outlets (hypermarkets, supermarkets, discount stores), as well as small retail stores belonging to the individual owners. The latter face numerous problems resulting from strong competition of the dominant, large retail outlets in the market, so that their independent activities on the market is likely to decline in importance, and consequently is replaced by various forms of integration. Trade cooperation with strong commercial capital, having an established position in the market brings survival and the ability to develop for small and medium-sized enterprises. New and innovate business model, which is a particular type of franchise business relationship that allows to strengthen the competitive position of each firm brings tangible benefits to both partners and creates opportunities for implementing synergies [1]. Currently, *franchising* has become not only acceptable, but actually an integral way of doing business, both at state level, as well as on a global scale [2].

Problems concerning traders and franchising was the subject of research for many theorists and practitioners, among which are worth mentioning: AJ Sherman, J. Mathews, A. McMillan, L. Stecki, R. Kowalak, B. Pokorska, M. Sławińska, M. J. Żółkowska and many others.

1. The objective, factual material and methods of research

The purpose of the article was to show the importance of franchise agreements activities and the development of small and medium-sized firms as well as their rating in the opinion of franchisees. Empirical part presents the results of a survey conducted in 2012, in selected retail outlets located in the Malopolska province, operating under the Carrefour Express and PSH Leviathan. The questions included in the questionnaire were addressed to the owners of small and medium-sized retailers who made the franchise cooperation with Carrefour Poland sp., and Leviathan Holding SA. The survey was conducted in 187 of 228 stores operating at the time of the survey in the Malopolska province, which is 80.02% of regional stores and 6,45% of stores in the entire country. Research sampling was conducted in a targeted manner to show the business strategy based on the model of the franchise in terms of two different market players, which is an international network of Carrefour, and Leviathan built with the Polish capital. The company Carrefour Poland Ltd. in present in the market since the mid-90ties and has an established position among the leaders of large trade, and develops a network of franchise stores from 2010. The PSH Leviathan in turn has many years of experience in building an integrated network of trade, as it is operating in the market since 1994. Currently it is one of the largest franchise networks in the Polish market, as under the brand name of the company operates over 2,730 outlets.

2. The development and structure of retail trade in Poland

The current shape of the Polish trade, its structure and form are a direct consequence of changes that began in our country along with the period of transition. In the trade sector, much faster than in other sectors of the economy, there has been a general mastery of market mechanisms, fixation of client-oriented elements and acquisition of the fundamental principles of marketing behaviour [3]. Appearance of foreign brands in the Polish market, such as Carrefour, Real, Tesco, Geant, Auchan, E'lecler and the related transfer of foreign capital and marketing strategies has made changes in the trade progress rapidly, with the development of large retail outlets (hyper- and supermarkets). The development of large outlets was quickly joined by the development of discount shops, mainly networks as Biedronka and German companies: Lidl, Aldi and Kaufland, which offered its customers a smaller choice than supermarkets, but with significantly lower prices. Principles of the market economy meant that indigenous companies, which were characterized by high fragmentation had to meet the new rules dictated by the high level of competition from foreign retail outlets. The realities of today's marketplace meant that many small and medium-sized enterprises collapsed, and those that survived have had to apply different strategies, which gave them an advantage over its competitors, particularly in pricing, assortment and service.

According to the data from the Central Statistical Office at the end of 2011, the estimated number of stores in Poland amounted to 345 thousand and was a lower than last year by 0.3% [4]. The data collected in Table 1 show that in the period 2003-2011 the total number of stores decreased by 12.02%, but not all formats recorded declines in number.

TAB 1. **Retail outlets in Poland by organizational form.**

Item	2003	2005	2007	2009	2011
Shops in total: including:	386468	384001	3 71328	371839	344982
Department stores	102	95	76	60	66
Trade Stores	517	462	372	314	280
Hypermarkets	293	374	396	495	565
Supermarkets	2,043	2,716	3,506	4,041	5,006
Other shops	383513	380354	366978	366929	339065
Gas Stations	9,173	10036	9,807	9,738	9,603

Own study based on CSO data.

The most rapidly growing is the sector of supermarkets in Poland, as their number increased during the specific period of 145%. High dynamics also characterizes the hypermarket form, the number of which since 2003 has increased by 92.83%. In contrast, the number of stores classified as other decreased by 13.11%, which category includes small and medium-sized domestic traders. Sector of commercial small and medium-sized enterprises is still differentiated, both in terms of size, organization, product range, the legal form and location [5]. It should be noted that the large retailers can operate only in a suitable location for them, and this is major cities. Small grocery stores do not have the limitation and therefore can operate out of large cities, especially in small towns, settlements and villages. These observations have been made by the big chain stores, which in the diversification of portfolio begun to invest in small local shops and convenience stores. At the same time, the owners of small shops saw their chance, for which the preferred solution is franchise agreement. Manifestation of the modern market is trading network that provides retailers with the opportunity to develop individual and large trade networks, giving both Polish and foreign owners the possibility of expansion on an unprecedented scale.

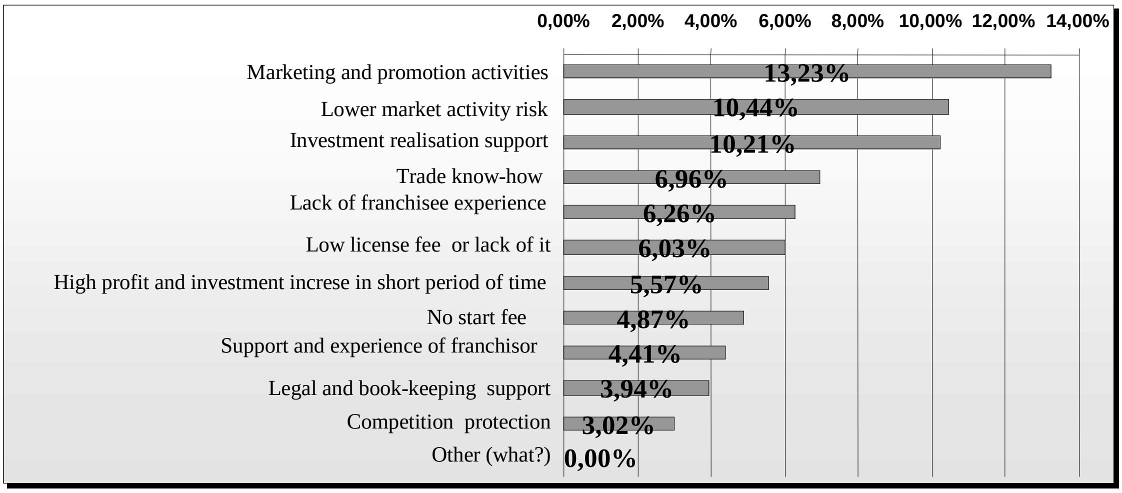
3. Benefits and limitations associated with participation in a franchise system for individual traders - the results of empirical research

Franchising in commercial activities is defined as a system for the sale of goods, services, or technology, based on the close and continuous co-operation between legally and financially separate and independent enterprises (franchisor and individual franchisees) [6].

The cradle of the system is believed to be United States and that's thanks to *Singer Sewing Machine Company,* who created a network of dealers in the second half of the XIX century [7]. Then the franchise leaders such as *Coca-Cola* and *McDonald's* joined. First franchise system began to operate in the Polish market in 1989 through a French network Yves *Rocher*. According to the latest research, in 2011 in Poland operate 746 franchise systems, of which a significant portion is operating in trade. The greatest interests in such agreements have independent grocery store owners who are willing to enter into cooperation with a strong partner. In the last year in Poland, more than 21 thousand of such facilities were operating based on franchise [7].

Research was done in the group of the owners of retail stores, who have entered into a franchise agreement with Carrefour Poland Ltd. and PSH Leviathan. The owners were in 71.23% men, with higher education (53.47%) or high-school level (42.36 %), with at least 5 years of experience in business (55.88%). The respondents were asked which elements of franchise agreements are most favourable to them (Fig. 1).

Fig 1. **The benefits of a franchise agreement.**



Own study based on questionnaire survey.

Respondents clearly indicated that the possible benefits from the promotion and marketing offered by a partner (13.23%) was the main factor motivating them to work with the commercial network. Next were the risk reduction activities (10.44%), support of the implementation and realisation of investment (10.21%), and access to the trade know-how (6.96%). Less important was the aspect of protection against competition (3.02%). The next question asked was what kind of support offered by the franchisor before the start of action they deem most important (Table 2).

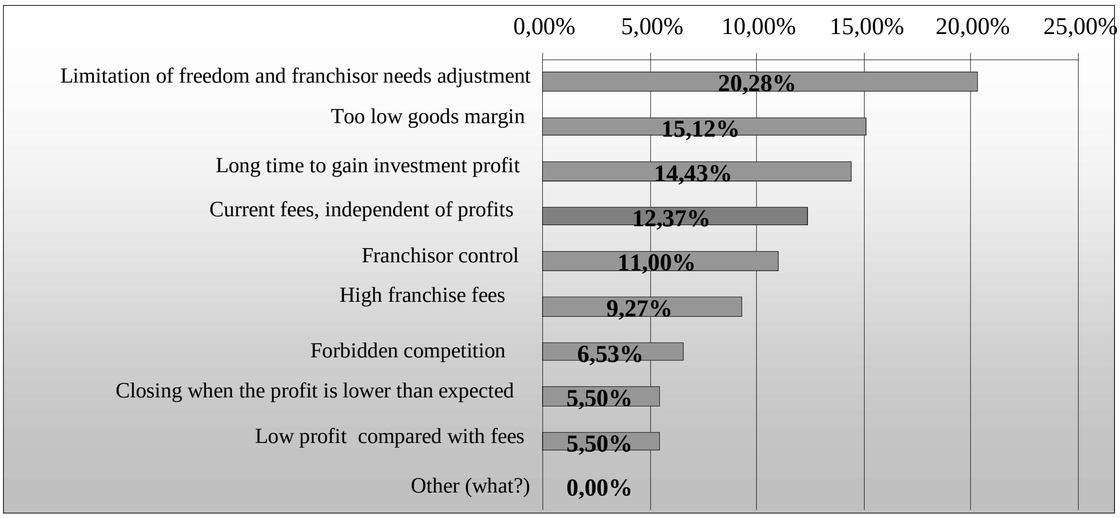
TAB 2. **Types of activities and support offered by the franchisor**

What kind of assistance received before the beginning of the activity offered by franchisor you think is the most important?	Number of answers	%
Help in preparing the interior of the facility and the opening of	73	27.55%
Training package	56	21.13%
Working with suppliers of Carrefour / Leviathan	56	21.13%
Access to a network of private label products	45	16.98%
Help in decision-making	35	13.21%
Other (what?)	0	0.00%
In total	265	100.00%

Own study based on survey.

As shown by the data collected, respondents most appreciate help of franchisors in the equipment inside the facility and the preparation of opening (27.55%), training package (21.13%), ability to work with network providers (21.13%) and the access to own brand products (13.21%). Bearing in mind that each partnership brings not only benefits but also a number of obligations and commitments, respondents were asked to indicate which elements of the franchise agreement are impediment for them (Fig. 2).

Fig 2. Limitations and problems arising from the franchise agreement



Own study based on survey.

Among the limitations of franchise agreements with a trade network, the shop owners most frequently cited: lack of freedom of action and the need to adjust the requirements of the franchisor (20.28%), excessive control (11.00%), imposing too low level of margins (15.12%), long-term return on their investment (14.43%) and the current fees for the franchisor, often regardless of performance (12.37%). In the context of an overall assessment of competitiveness level, respondents were asked for an opinion, did joining the trade network affect the market position of the store (Table 3).

Table 3. Competitive position of the store after joining the franchise

What is the competitive market position of the store after joining the franchise?	Number of answers	%
Better/improved	61	47.66%
I see no difference	8	6.25%
It's hard to say / I do not know	59	46.09%
In total	128	100.00%

Own study based on survey

The majority of respondents (47.66%) confirmed that joining the franchise system had a positive impact on the competitive position of the store. Large part of the respondents (46.09%) was not able to clearly identify, and 6.25% of the respondents considered that join the network had no impact on the competitiveness of their store.

Summary and Conclusions

Previously collected data, the analysis and the research results gained allowed for the formulation of the following conclusions:

1. The opening of the economy and the Polish presence in the European structures led to positive changes in the trade sector. The supermarket format in the trade structure now dominates and has the highest rate of growth. Small and medium-sized shops of private owners adapted to modern competition conditions, what strengthened their position in the market, mainly due to the convenient location for the customer (small towns, settlements, villages).
2. Manifestation of the modern market is trading network that allows expansion into new markets of large retail chains, due to smaller format of stores and individual owners of businesses are provided with support and growth prospects and strengthening the competitive position.

3. Individual entrepreneurs are willing to cooperate in the franchise framework, what is confirmed by the number of available systems on the market and the number of stores operating under the well-known brand names.
4. The results of the study show that the owners of small and medium-sized stores included in Carrefour Express and Leviathan are positive about working with the franchisor and competitive position in the market store, which was confirmed by 47.66% of the respondents.
5. The biggest benefit for owners of retail stores, resulting from a franchise agreement is the ability to use marketing and promotional activities offered by the partner. Among other incentives to cooperate with trade network are: risk reduction activities, support in the implementation of investment and access to the trade know-how.
6. Of the support received from the franchisor, shop owners value most: help with equipment inside the facility and preparing the opening, training for business, the opportunity to work with network providers and access to own label products. All of these elements make economic activities easy to small retailers, reduce cost and differentiate themselves from the competition in the market.
7. Activity in the trade network structures brings not only privileges and benefits, but also a number of obligations and duties imposed by franchisors that are perceived by the franchisees as a serious limitation of the rights of ownership and a source of additional cost, which was confirmed by 20.20% of respondents. Other problems arising from the franchise agreement are: excessive control, the need to impose too low margins, long-term return on the investment and the high level of current fees for franchisor.

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