

FRANCHISING IN THE WORLD OF BUSINESS

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***Abstract:** Internationally, the franchise system has become one of the major sources of income for major brands. Franchise is a modern way to start and carry on a business on its own to produce and market in a certain space goods and services that have been successfully launched in other territories. Perhaps the most important advantage for the franchisee is the purchase or use of a well-established product or service. So the Franchisee benefits from a business that already has an established product or service.*

***Keywords:** franchise, advantage for the franchisee, Accounting treatment of franchise business operations*

Introduction

Beginning in the business world is very complicated because not only solid material resources are needed, but also multiple steps required to ensure a place to do business, develop marketing strategies, human resources, advertising, sales, etc¹.

There is a form of commerce, relatively new on the Romanian market, taken from the Americans, which allows a complete simplification of things. This form of trade is called franchising or franchise, which is a business development strategy. The most important advantage for the franchisee is that it benefits from a business that already has a committed product or service.

Defining issues

Internationally, the franchise system has become one of the major sources of income for major brands. The history of the franchise dates back to the 1850s when this type of contract was used in New South Wales in the hotel business, and in the US for the first time in the field of telecoms and was also used by car manufacturers and local dealers.

Franchise is a form of commerce by which a franchisor (the owner of a service or a product mark) grants a person named franchisee the right to use the brand and logo of a brand.

¹ Ciprian Pavel, Florea Vlad – Modern retail and its influence on consumer behavior, Quaestus Journal No.9, 2016, p.92

Franchise is a modern way to start and carry on a business on its own to produce and market in a certain space goods and services that have been successfully launched in other territories.

The advantage of a franchise business is the ability to attract customers much easier if you benefit from high production, marketing and marketing techniques that have already been improved over time.

In order to use these services, the franchisee has to pay the franchise fees (called the franchise fee), certain royalties and other taxes assimilated to the franchise, and must maintain a certain quality standard the franchisor.

Franchises are successfully used by thousands of entrepreneurs around the world.

The franchisee's investment in the development of the mark and the services provided by the franchisee before the opening of the franchise business are paid.

The **periodic fee** will offset the services provided throughout the duration of the contract. During the franchise contract, the franchisor can control how the franchisee complies with the commitments assumed under the franchise agreement.

Other taxes assimilated to the franchise such as: marketing or advertising fee, booking fee, franchise fee, technical assistance fee and service charge.

Among the essential elements of the franchise are the signs of customer engagement, know-how and technical and commercial assistance.

A more comprehensive and more precise definition is given by the European Franchise Federation in the European Code of Ethics of the Franchise, which states that the franchise is: "A system for marketing products and / or services and / or technologies, based on close collaboration and continues between distinct and independent businesses from the legal and financial point of view - franchisor and franchisee. "

According to this definition, the essential features of a franchise business are as follows:

- franchise is a system of trading goods and / or services and / or technologies;
- a franchise business is based on a close and continuous collaboration between distinct and legally and financially independent businesses, called franchisor and franchisee;
- in a franchise business, the franchisor grants the franchisee the right to operate a business in accordance with its concept;
- the franchisor authorizes and obligates franchisees to use:
 - the company and / or brand of products and / or service marks,

- the know-how,
 - technological and operational methods of business,
 - the system of procedures,
 - other industrial and / or intellectual property rights he owns,
- the franchisor provides technical and commercial assistance within and for the duration specified in the franchise agreement between the parties for this purpose;
- the franchisee, in return for the franchisee's right of use, pays the franchisor an entry fee and royalties;
 - the franchisee invests capital for the franchise;
 - the franchisee is liable to third parties for the acts performed by him in the franchise operation;
 - The franchisee has the obligation to collaborate loyally for the success of the network they are joining.

For the business owner, the franchise is a way of expanding the business. For the franchisee, there is an opportunity to open and conduct a business under a recognized brand.

The legal status of the franchise in Romania can be found in GEO 52/1997 completed by Law no.79 / 1998.

Under Law 79/1998, the franchise contract must include the following clauses:

- subject of the contract;
- the rights and obligations of the parties;
- financial conditions;
- duration of the contract;
- the conditions for modification, extension and termination.

According to art. 6 of GO 52/1997 The franchise contract shall respect the following principles:

- the term will be set so as to allow the beneficiary to depreciate the franchise-specific investments;
- the franchisor will notify the beneficiary with sufficient prior notice of the intention not to renew the contract at the expiration date or to sign a new contract;
- in the termination clauses, the circumstances that may result in termination without notice are clearly established;
- the conditions under which it will be able to operate the assignment of rights deriving from the contract will be clearly stated, in particular the conditions for the designation of a successor;

- the right of preemption will be provided if the interest in maintaining or developing the franchise network requires the recognition of this right;
- non-competition clauses will be included in the contract to protect know-how;
- the beneficiary's financial obligations will be clearly stated and determined so as to favor the achievement of the common objectives.

According to objective criteria of the franchise, this operation can be classified into:

- a) franchise of product and brand
- b) business franchise.

The advantages and disadvantages of the franchise²

Franchising continues to grow and expand even in professional operations. Also doctors, accountants and opticians have created and developed franchise systems.

Perhaps the most important advantage for the franchisee is the purchase or use of a well-established product or service. So the Franchisee benefits from a business that already has an established product or service.

In conclusion, the benefits for this kind of business are:

Initial training of franchisees

Many franchise training sessions begin with an initial period of several days or weeks spent at a training center, usually located close to the headquarters of the franchisee. Initial training of franchisees includes all operational procedures used in the business, plus marketing, advertising, promotion, bookkeeping, inventory control, management, insurance and inter-human relationships.

Financial assistance

The vast majority of franchisors do not provide direct financial assistance to their franchisees. The Franchisee usually has the responsibility to pay all the costs associated with starting a franchise business. The Franchisee is also helped by association with the franchisor when seeking to obtain credit from the bank.

Help for marketing and management

Consumers tend to use franchise services because of their name, decor, logo, or quality that they perceive as the standard product or service. By

² <http://www.fbb.ro>

franchising, a business is already established with a product and / or service identifiable by consumers. Perhaps one of the biggest advantages of choosing a franchise business is the chance to have access to the marketing and promotion of the image made by the franchisor.

Standards for quality control

Each franchisor imposes certain quality control standards. These standards require the franchise system to provide a coherent and positive service or to achieve product uniformity throughout the network. Quality standards are a picture of a coherent management. These standards, though seem dictatorial, are used to help both the franchisor and the franchisee.

Less capital needed to operate the business

Another big advantage for franchisees is that, in general, in the costs necessary to start the new unit there is an initial lower capital for the development of the business.

Development opportunities

Many franchisees give the new franchisees the opportunity to grow, not just for the first unit, but also to open and operate other franchise units. A Territory Development Franchise guarantees zero competition from other franchisees or units owned by the company in a particular geographic area. The Developer Area Agreement gives the franchisee the opportunity to develop new units in a given territory over a period of time. The franchisee has the opportunity to create the first unit and to let it grow and expand through its system.

Franchise disadvantages

a) High costs

The franchisee has the obligation to pay a franchise fee and periodic tax to the franchisor. So a percentage of the franchisee's profit goes to the franchisor. In return for these payments, the franchisor supports the development of the franchise business.

b) The franchisee's autonomy is limited

The franchisee must abide by the rules of production, distribution, service rendered by the franchisor. Franchise's independence is limited. It is also possible that the franchisee, through the contract concluded with the franchisor, is conditioned to buy from pre-established suppliers and comply with the franchisee's employment policy.

c) The range of goods and services the franchisor can offer is predetermined

The franchisee can only sell those products and services established through the franchise

agreement. This requirement is imperative and limits the franchisee's ability to capitalize

on the advantages of the local market.

d) Limitation of the right to sell the business

Although the franchisee owns the business, the franchisor usually reserves the right to

refuse potential buyers of the franchise.

Accounting treatment of franchise business operations

In the account of the franchisee (beneficiary):

Purchase of the franchise on 03.10.2017 (euro exchange rate: 4.45 lei):

Concessions, patents = Suppliers of non-current assets 22.250

Payment of the franchise:

Suppliers of non-current assets = Cash at bank in RON 22.250

Registration in accounting a monthly franchise depreciation ($22.250 / 3/12 = 618$ lei):

Depreciation of non current assets = Amortization of concessions, patents, 618

Registration of royalties (10% of the value of the goods purchase):

Redevances, locations de gestion et loyers = Suppliers 10.000

Payment of royalties to the franchisor:

Suppliers = Cash at bank in RON 10.000

B. In the franchisor's accounting:

Accounting for franchise operations (franchise fee):

Sundry debtors = Other operating revenues 22.250

Receiving the franchise fee:

Cash at bank in RON = Sundry debtors 22.500

Record revenue from royalties:

Sundry debtors = Rental and royalty income 10,000

Collection of royalties:

Cash at bank in RON = Sundry debtors 10.000

References

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Ordonanța Guvernului nr. 52/1997 privind regimul juridic al francizei
Legea nr.79/1998.