

FINANCING FRANCHISING

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Gaining finance is an important step in establishing a business, own funds rarely being sufficient. The usual manner of acquiring funds is a loan from a domestic, or possibly foreign bank. Banks thus can play an important role in the development of franchising and subsequently in the development of business in general.

The essence of franchising

We can define franchising as a system of selling, but also as a specific modern form of cooperation between businesses. The franchisor is the originator and owner of a successful business idea, which he/she continues to sell. The franchisee is an independent partner who purchases a complete business "off-the-shelf" from the franchisor. The franchisor together with its franchisees forms a franchise chain.

Franchising is one of the safer forms of founding a business. According to a tried and tested concept and under the "protective umbrella" of the franchisor, the franchisee is able to conduct its business. If the franchising system is established on good and tested products and services, a well-known brand, business experience, setting up a new business becomes faster, with a lower risk of failure than in the case of starting up a firm with the usual forms and resources.

Some figures on franchising

There are almost 5000 franchise systems in operation in Europe. Of these, there are, for example, in Germany approximately 820 franchise systems, having 39 000 franchisees, employing 368 000 staff, achieving a turnover of EUR 25 billion annually. In France, there are 719 chains with 33 000 franchisees, and a turnover of EUR 33.7 billion. In Great Britain there are 671 chains with 30 500 franchisees and 325 000 staff.

In the Czech Republic there are around 90 sales systems operating on a franchising basis, or at least exhibiting certain franchising elements.

Franchising in the Slovak Republic is not as widespread as it is abroad. This is a result of a lack of awareness of this type of business, a lack of information, experience, unwillingness amongst businesspeople and due to financing problems. The majority of franchising systems originate from abroad. The McDonald's chain continues to grow, having now 16 restaurants, of which 7 operate on a franchise basis. Of

the foreign franchise chains operating in the Slovak Republic we can mention the retail outlets of the Norwegian Rema 1000. The domestic COOP Jednota chain presented itself in the professional press as the latest franchise chain this year, in which more than 2000 outlets are connected.

However, market development shows that franchising will more and more gain a momentum in the Slovak market.

Banks abroad and franchising

Many well-known banks abroad devote great attention to franchising. They monitor the development of the franchising business and through various methods support the establishment and development of franchising businesses. They are members of national franchising associations; they contribute financially to scientific seminars, workshops, issue publications on franchising, prepare and issue their own informative materials, attend franchising fairs, conduct their own research and cooperate with universities.

The experience of banks shows that loans to franchise businesses are relatively safe forms of banking operations in comparison to ordinary loans for small business start-ups. The reason for this lies in the fact that the bank does not need to know the full details of the individual franchisees applying for the loan, but rather the bank must be familiar with the franchisor, through its successful franchising concept. In the framework of a franchising plan they examine primarily the franchisor, the strength of its brand, know-how, the number of franchisees, the franchising contract, the franchising manual, membership in a franchising association. Through the franchisor, the franchisee also becomes a predictable and suitable partner. Taking the example of a McDonald's candidate: if the bank has already worked with the franchisor for several years, it knows how carefully the franchisor selects its franchisees, therefore the whole process of evaluating each candidate may be simplified and accelerated.



The National Westminster Bank (NatWest) in Great Britain was one of the first banks to create specific programmes for financing franchise projects. Back in 1981, it appointed a franchising officer, who worked in the framework of the section for small businesses. Gradually, this work team grew to such an extent that it created an independent department with several staff.

The NatWest example was quickly followed by Barclays Bank. Its franchising team has assigned territories, one member of staff responsible for South England, another North England, Wales and Scotland.

Lloyd's Bank was the third of the large banks to formally appoint franchising officials. The example was later followed by Midland Bank and the Royal Bank of Scotland. The Royal Bank of Scotland has a franchising and licensing department. This department has three representative offices – in London, Edinburgh and Manchester.

In France the banking group Crédit Lyonnais is involved in franchising, cooperating with roughly 120 000 franchising firms in Europe. Other banks involved in franchising include Crédit d'Équipement des Petites et Moyennes Entreprises (CEPME), Caisse National du Crédit Agricole (CIC), Banque National de Paris (BNP), and Société Générale.

In Germany, a special position is held by Deutsche Ausgleichs Bank, which since its establishment in 1950 has specialised in supporting business start-ups. Since its founding it has provided funds to thousands of franchisees. The bank has prepared various financial assistance programmes for starting up a business, with attractive interest rates and repayment periods, with the aim of supplementing the insufficient own funds of the businessperson.

Also in other countries there are banks involved in franchising. In Belgium there is, for example, Générale de Banque, in Holland L'ABN Amro, in Spain Banco Sabadale, in Italy Credito Italiano, in Austria Erste Bank der Österreichischen Sparkassen AG. Erste Bank regularly issues brochures entitled "Franchising Partnerschaft statt Alleingang" and "Start and Go – Leitfaden für Unternehmensgründer".

A specialised manager with a group of co-employees at the head-office allows the bank to gather together experience, which may then be transferred to staff in individual branches. Decisions, as to whether the bank should get involved in the financing of a particular franchising businessperson thus lies in the hands of professionals. They have the necessary knowledge and experience of franchising in general as well as of the local environment and the specific applicant.

In 1988, five large European banks: Société Générale (France), NatWest (Great Britain), L'ABN Amro (Holland), Credito Italiano (Italy), Banco Sabadale (Spain) declared an association and the creation of an assi-

stance network to franchise chains wanting to develop in Europe. In the framework of their co-operation agreement, each bank in the network agreed to mutually inform one another on franchising clients. On the basis of a recommendation of a partner bank the best conditions are created for a client. Thanks to the reciprocal involvement of a bank (centrally as well as regionally), they offer their services to foreign franchisors wanting to transplant themselves into a market, as well as offering permanent assistance during development. The aim of this alliance is to contribute to the development of franchising, to save the time and funds of franchisors and their franchisees in establishing themselves in the market. The alliance is beneficial not only as far as providing funds is concerned, but also with regard to bringing closer culture, since knowing the culture of a country is a pre-condition for adapting a franchising concept abroad.

The first activities of banks in franchising in Slovakia and the Czech Republic

It is a generally known fact that new start-ups, whether they be a franchisor or franchisee, lack capital. Banks are not falling over themselves to lend to entrepreneurs, small businesses or farmers. Owners of small businesses complain of banks' inflexibility and cumbersome procedures in providing loans. Businesspeople state the good example from Hungary, where businesspeople get access to finance via a much shorter path. An association or guild acts as a guarantor for the businessperson. There is a parallel here with franchising.

Many commercial banks operating in Slovakia have foreign investors. This brings banking know-how, which in turn leads to an improvement in the quality of services offered and an enrichment of the market by products aimed at corporate clientele and households.

Franchising know-how has, however, as yet not been transferred from the banks' mother countries. The first small step for franchising was made back in 1992 by Všeobecná úverová banka. In cooperation with the University of Economics it trained its staff in the essence of franchising and appointed one employee from the head office with maintaining contact with the Slovak Franchising Association. At present the owner of Všeobecná úverová banka is the Italian Intesa Bci. It has as yet, however, not prepared any product for franchising.

In the bank Slovenská sporiteľňa, capital is provided by the shareholder Erste Bank. With regard to the fact that Erste Bank has great experience with franchising, businesspeople justifiably expect an innovative approach from Slovenská sporiteľňa in this field also in Slovakia.

In the Czech Republic an important milestone was probably the year 2002, when the Czech Franchising

Association gained various banks for cooperation in this market, in particular Komerční banka, which also significantly financially supports the activities of the Czech Franchising Association. At Komerční banka work experts from France, where, as has already been mentioned, relations between franchise businesses and banks have been developing over several decades. Komerční banka has launched a pilot special offer project for franchising, which it presented in May 2003 at the Franchising Forum in Prague. Besides financing franchising subjects, Komerční banka brings an integrated strategy in its range of products for small and medium-sized enterprises:

- Profi loan – a quick and simplified loan for businesses (reduced documentation necessary, significantly shortened period for arranging the application for the Profi Loan, significantly shortened period for the overall approval process).
- Overdraft permitted on the account.
- Financial packages Efekt, Komfort, Excelent, Premium.
- Special offers for individual sectors.

Franchising specialists from Komerční banka (a segment banking advisor, a banking advisor in the branch, an analyst) evaluate the loan applicant's franchising system. They analyze:

- the franchisor – the establishment, development strategy, development of the brand, support for the franchise chain, marketing communication, franchisee training, guarantees, cash flows, the franchising contract and follow up contracts,
- the franchisee – qualifications, experience, motivation, legal status, project presentation (the building to be used for the business, location, market research, projected revenues), capital structure (own assets, debt), the financial plan, financial forecast for a least three years, security proposed.

After evaluating its pilot project Komerční banka prepared a new banking programme supporting franchising in the Czech Republic, the "KB Franchising Program". Komerční banka does not operate this (or a similar) programme in Slovakia.

What is the KB Franchising Program?

- The financing of business activities in the framework of a franchising system.
- Access to a franchising network as a whole and to the franchisee as a part of a verified and successfully working system.
- Enables the franchisor to expand its franchising network without the need for further investment.
- Enables the franchisee to start up and develop a business in the franchising framework.

Characteristics of the KB Franchising Program

- The recipient of the loan is the franchisee, i.e. the recipient of the franchising – a domestic legal entity or

natural person – an entrepreneur, who is the holder of a licence from the franchisor.

- The financing is provided in korunas or in foreign currencies as a short-term, medium-term or long-term loan.
- Drawing and repayment of the loan is made in a single payment or in instalments.
- Conditions are set according to the type of loan provided.

The subject of financing may be investment in the form of tangible or intangible assets, including the acquisition of the franchise, current assets, for example, stocks or trade receivables, operating needs, such as expenses for repairs and maintenance.

Conclusion

Governments in market economies see small businesses and self-employment as an important source and factor in employment. The importance and influence of banks in the development of franchise chains and the running of small and medium-sized enterprises continues to grow.

The first steps to advancing franchising include the training of a team of franchising specialists at the head offices of banks and in branches, and the designing of a franchising plan for applicants of banking services. Relations with clients are closer, engendering a higher degree of confidence; services are made to measure, bringing benefits to all parties involved. Advice and financing in franchising is an attractive service for banks. They serve also as an example to other institutions as regards the advantages gained from an involvement in franchising projects.

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