



## **FRANCHISING: a Vector for Economic Growth in Europe**



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## FRANCHISING: a Driver for Economic Growth in Europe

- What is franchising?
- Economic weight in figures
- A Vector for creating economic activity and wealth : success factors
- The Ethics of Franchising



### ➤ What is Franchising<sup>1</sup>, commonly called "business format franchising"?

Business Format Franchising, or simply commercial franchising, is a **system of marketing** goods and/or services and/or technology based upon a written contract between two legally, financially and fiscally separate and independent undertakings, the **Franchisor** and each of its individual **Franchisees**, whereby the Franchisor grants each of its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept.

The concept is formatted so as to create a common and recognisable identity for the franchised brand and business.

The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the **business package** composed of the Franchisor's trade name, and/or trade mark and /or service mark (brand), know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of the written franchise agreement, concluded between the parties for this purpose.

Business Format Franchising as a marketing system is highly flexible and adaptable and has been adopted to develop brands across a wide variety of product and service sectors.



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<sup>1</sup> Source: European Code of Ethics for Franchising

➤ **Economic weight in figures<sup>2</sup> in EU-17<sup>3</sup> Member States:**

✓ **Average annual growth rate of number of brands is 8.1%**

Country	# brands/systems	# brands	# brands	Δ growth over 2 yrs	% domestic brands
17-EU States	2007	2008	2009	2009/2007	2009
AT-Austria	390	411	435	11,5%	55%
BE-Belgium	200	240	320	60,0%	60%
CZ-Czech Rep	131	137	150	14,5%	50%
DK-Denmark	180	185	188	4,4%	82%
FI-Finland	220	255	265	20,4%	75%
FR-France	1.137	1.229	1.369	20,4%	89%
DE-Germany	910	950	960	5,5%	80%
EL-Greece	544	560	563	3,5%	70%
HU-Hungary	320	350	341	6,6%	70%
IT-Italy	847	852	869	2,6%	96%
NL-Netherlands	676	669	679	0,4%	85%
PT-Portugal	501	521	524	4,6%	55%
PL-Poland	383	480	565	47,5%	73%
SI-Slovenia	103	106	107	3,9%	48%
ES-Spain	850	875	919	8,1%	81%
SE-Sweden	350	400	550	57,1%	67%
UK	809	835	842	4,1%	89%
<b>TOTAL</b>	<b>9.102</b>	<b>9.687</b>	<b>10.176</b>	Av.2009/2007 = 16.2%	
				<b>Annual Av. = 8.1%</b>	

- ✓ In 2009, these EU-17 counted **over 10,000 franchise brands**.
- ✓ The **average annual growth rate of number of brands** in these EU-17 between 2007 and 2009 was **8.1%**
- ✓ Between 1997 and 2007, the **average annual growth rate of brands** in 5 major European markets, namely **Germany, Britain, France, the Netherlands and Italy** was **9.5%**.
- ✓ The full significance of the EU-17's number of franchise brands (**10,000+**) comes to light when compared to the number of franchise brands in **other major world markets for 2009** (est.) :

<b>China</b>	2,800	<b>India</b>	1,800
<b>South Korea</b>	2,500	<b>Brazil</b>	1,643
<b>USA</b>	2,200	<b>Canada</b>	1,200
<b>Turkey</b>	1876	<b>Australia</b>	1,000

<sup>2</sup> Source of figures in this report: (1) franchise statistics: provided by the national franchise associations; (2) EUROSTAT-Stats in Focus 31/2008 (key indicators on SME's in the non-financial business economy). The non-financial business economy includes the sectors of industry, construction and distributive trades and services (NACE C-N).

**The exercise consisted in correlating (1) with (2) to produce the % of franchise enterprises in EU-17 and the related % of employment.**

<sup>3</sup> Comparisons between EUROSTAT and national figures were possible only for 2009 and for 17 EU Member States.

- ✓ The share of franchise employment among SMEs in the EU-17 is 10.8%

### Year 2009

Country	Eurostat*	Franchise	Eurostat	Franchise
17-EU States	#SME enterprises (in 1000)	# franchise enterpr. (in 1000)	SME employment (in 1000)	Employment (in 1000)
AT-Austria	272	-	1.589	-
BE-Belgium	395	-	1.602	-
CZ-Czech Rep	878	-	2.461	-
DK-Denmark	202	7.520	1.129	32.800
FI-Finland	187	6.800	717	42.040
FR-France	2.274	51.600	8.834	693.164
DE-Germany	1.654	58.000	12.357	452.122
EL-Greece	820	18.089	2.031	
HU-Hungary	556	18.000	1.783	98.000
IT-Italy	3.819	53.434	12.182	180.525
NL-Netherlands	492	28.475	3.146	246.708
PT-Portugal	848	-	2.676	69.536
PL-Poland	1.405	26.640	5.289	350.000
SI-Slovenia	88	1.527	371	6.910
ES-Spain	2.542	57.139	10.538	235.075
SE-Sweden	523	18.000	1.667	102.000
UK	1.535	34.800	9.636	453.000
<b>TOTAL E-17</b>	<b>18.490</b>	<b>(i) Est. 500.000</b>	<b>78.008</b>	<b>(i) Est. 3.897</b>
<b>TOTAL E-27</b>		<b>19.602</b>		<b>85.000</b>
Share of SMEs in sectoral sectors in which franchising is likely to exist (NACE G-I + K)	(ii) 58.6% of 18.490 <b>= 10.827</b>		(ii) 46.5% of 78.008 <b>= 36.233</b>	
<b>(i) / (ii) =</b>		<b>= 4.6%</b>		<b>= 10.8%</b>

\* see footnote 2.

- ✓ The share of franchise enterprises among SMEs in the EU-17 in the relevant NACE sectors is **4.6%**
- ✓ The share of employment in these enterprises is **10.8%**



➤ **A vector for creating economic activity and wealth: success factors**

1. Franchising in Europe has proven to promote the **creation of enterprises and small-business ownership** and, as a consequence, of **employment** and of **turnover**.

2. Franchising with its business-format rationale, its contractually-specified roles and responsibilities of franchisor and franchisee respectively, the transfer of know-how from franchisor to franchisee, and the built-in two-way communication, is a **dynamic and efficient system for enterprise growth**.

3. It is also an **entry vehicle to self-employment** for many segments of the work force, including people who want to re-orientate their working lives and who do not necessarily have prior entrepreneurial experience.

4. A proper franchise system ensures the **continuing provision of commercial and technical assistance throughout the term of the contract** and thus truly **increases the survivability rate** of start-ups as well as their **sustainable growth**, particularly **in times of crisis** as the circumstances of the latest crisis has shown.

5. Franchising is a mode of business development both at **local/domestic level** where it generates enterprise creation, employment and wealth as well as at **international level**. At this level, it is a **natural vector for the export of business and for cross-border trade**, as well as a **venue for incoming foreign investment**.

6. Franchising contributes to the **transformation, modernisation and professionalization** of traditional trades and services as well as the formatting of new trades and services. It also professionalises and **renders transparent** significant portions of the informal retail and service sectors, both in terms of employment and tax benefits.

7. Franchising contributes to the development of a **middle-level platform of independent enterprises** between the large incorporated distribution groups and the small stand-alone entrepreneur in the retail and service sectors. It thus **increases competition on the market**.

8. Franchising, through the in-house training programs for franchisees, and often of their staff, **promotes the learning of entrepreneurship** as witnessed by the many examples of organic growth stemming from franchisee staff members eventually becoming franchisees themselves.

9. Franchising promotes **best practice and healthy competition** between franchise networks (inter-brand competition).

10. A franchise contract contains **vertical restrictions**<sup>4</sup> to protect the franchise know how, identity and brand image<sup>5</sup> on which everyone in the network depends.



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<sup>4</sup> Commission Regulation (EU) 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

<sup>5</sup> Pronuptia case, ECJ 28/01/1986-161/84

- **Franchising: a mature commercial strategy built upon a strong Code of Ethics** ~ some guiding principles of the European Code of Ethics for franchising
- ✓ In order to allow a prospective franchisee to enter into any binding document with full knowledge, they will be given **full and accurate written disclosure** of all information material to the franchise relationship within a reasonable time before the execution of these documents
  - ✓ **Advertising** for the recruitment of franchisees must be **free of ambiguity, misleading statements**, and any direct or indirect references to future possible results will be **objective and not misleading**
  - ✓ The **rights and obligations of the franchisor and the individual franchisee** and all relevant terms will be fully and clearly stated in a **written contract**
  - ✓ The franchisor will provide each individual franchisee with **initial training and continuing commercial and/or technical assistance during the entire life of the agreement**
  - ✓ The parties will exercise **fairness** in their dealings with each other
  - ✓ The parties should **resolve complaints, grievances and disputes** with **good faith and goodwill** through fair and reasonable direct communication and negotiation, with access to **ADR** such as mediation
  - ✓ The franchisor will have operated a business concept with success, for a reasonable time and **in at least one pilot before** selling the business to franchisees



*The European Franchise Federation (EFF), founded in 1972, is a not-for-profit professional organisation that represents the franchise industry in Europe. It has its seat in Brussels. It currently has as members 20 franchise associations from 16<sup>6</sup> EU Member States and 4<sup>7</sup> non-EU States. Its aims are to promote, protect and contribute to the development of franchising in Europe and to speak with one voice for franchising.*

**[www.eff-franchise.com](http://www.eff-franchise.com)**

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<sup>6</sup> Austria, Belgium, Czech Rep., Denmark, Finland, France, Germany, Greece, Hungary, Italy, Netherlands, Poland, Portugal, Slovenia, Switzerland, UK

<sup>7</sup> Croatia, Serbia, Switzerland, Turkey