

## The Franchise Business Model as a Concept for Entrepreneurial Development: Opportunities and Legal Aspect - the Case of Republic of North Macedonia

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**Abstract:** Franchising as a business model has gained significant popularity worldwide. Namely, it enables growth or starting a business by leveraging an established brand name, proven systems, and support from franchisors. The purpose of the paper is to emphasize the opportunities and legal aspect of franchising as a business model for the enterprises in the Republic of North Macedonia. In order to achieve the aim of the paper, key stakeholders from the field of franchising in the country were interviewed, as well as the identification and analysis of the existing legal regulations related to this field was made. The analyzes confirm that franchising as a business model in North Macedonia is still in the development phase, certain systemic, legal and human factors are missing, and franchising should be promoted more as a model for business expansion, as well as an opportunity to open new developed and desirable businesses.

**Key Words:** Franchising, Business model, Franchise agreement, Entrepreneurial development, North Macedonia.

### 1. INTRODUCTION

The market is becoming more dynamic, uncertain, competitive, and entering new markets is becoming more difficult. However, the business model in the form of franchising allows starting a business with an established model of work and a modern form of cooperation so that the previous challenges are overcome in an easier way.

Franchising is a specific form of business, which began with development in the 50th of last century, and experienced notable growth in the last two decades of the 20th century. The successfulness of entrepreneurship by franchising is one of the safety forms of entrepreneurial activity (Orgonáš et al., 2020).

For many businesses, franchising is becoming a significant or only way to grow. Franchising may also be the lowest risk, require the lowest upfront capital, and have the best potential for a successful business (Anderson, 2020).

Aikor (2018, p.3) in his research pointed out that franchising is a business model that can be used as an entry strategy in international business. In addition, he defined franchising as a business in which the franchisor creates a solid marketing strategy and the retail franchise owners implement it in their local units. The author comes to the conclusion that capital, knowledge, market, and equipment are included in all the definitions that he

analyzes in his research. While the franchisor has the resources and equipment, the franchisee is valuable for their expertise and market opportunities.

The concept of franchising is closely associated with the growth of entrepreneurship in the SME sector given that it is one of the strategies used to support the business operations of SMEs. Franchising is a method of selling products, services, and/or technology that is based on a formal agreement signed by two independently owned companies. The franchising grants the receiver a right while imposing an obligation to operate the company in line with the franchisor's philosophy and business strategy (Grzelak & Matejun, 2013).

In addition to facilitating business expansion, franchising serves as a vehicle for economic empowerment that can support start-up businesses and contribute to the expansion of the small and medium enterprise sector while creating opportunities for new jobs (Aikor, 2018, p.4).

According to Anastasovska (2011) franchising and franchising agreement is one of the solutions for the businessmen and entrepreneurs' problems who are trying to work successfully in conditions of unstable economic development, poverty, high unemployment rate and relatively small market (p.698). The experiences show that franchising business models are very attractive in economies

with small capital, high unemployment rate, domination of small and medium enterprises, economies that do not have potential for investments in research and development, also for establishing or spreading specialized design and marketing departments.

The theoretical background of this research is framed around key concepts relating to understanding the franchising business model as a concept for entrepreneurial development and what are the advantages and disadvantages of franchising for the franchisee. This paper is structured as follows: section two presents material and methods used for preparing this paper, followed by characteristics and types of franchises in section three. Advantages and disadvantages of the franchising business model are presented within the fourth section of the article, the fifth section covers the result and discussion related to the franchise business model in Republic of North Macedonia – opportunities and legal aspects. The last section of the paper presents the conclusions and recommendations of the study.

## 2. MATERIAL AND METHODS

This paper emphasizes the benefits of franchising as a business model that enables entrepreneurial development, and as a significant opportunity for businesses from different sectors, especially in smaller or less developed countries for encouraging businesses. The main purpose of this paper is to identify benefits, legal aspects and to emphasize the challenges of franchising as a business model for the enterprises in the Republic of North Macedonia.

In order to achieve the aim of the paper, primary and secondary research was conducted. The secondary research is based on the most relevant research and papers, conference papers, open-access materials, study reports related to the research topic and other relevant publications. Primary research is based on direct interviews made with the key stakeholders from the field of franchising in the country and identification and analysis of the existing legal regulations related to this field in North Macedonia.

## 3. CHARACTERISTICS AND TYPES OF FRANCHISES

According to the International Franchise Association (IFA) a franchise (or franchising) is a method of distributing products or services involving a franchisor, who establishes the brand's trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the

franchisor's name and system (IFA). The franchisee is given the right to run a business following the franchisor's detailed rules and regulations, using the franchisor's business model, marketing materials, and continuing support. The franchising model allows for rapid expansion of a business while minimizing the risks associated with starting a new business from scratch. The subject of the franchise can be: the brand, the way of working, the quality of the product - procurement, manufacturing, the concept of the product and marketing control, initial financing, human resources support, etc.

Analysis of the Franchise 500 (2023) ranking confirms that franchising is found in almost every industry. A review of the top ten places shows that the franchising model is most present in the food sector, but further ranking confirms that a successful franchising business model can be found in almost every sector. The analysis is based on five pillars: costs and fees, size and growth, franchisee support, brand strength, and financial strength and stability. Based on these pillars the top ten places are as follows (Entrepreneur Media, 2023):

1. Taco Bell – Mexican - inspired food
2. Popeyes Louisiana Kitchen - Fried chicken, seafood, biscuits
3. Jersey Mike's Subs - Subs and Philly cheesesteaks
4. The UPS Store - Shipping, packing, mailboxes, printing, faxing, shredding, notary services
5. Dunkin' - Coffee, doughnuts, baked goods
6. Kumon - Supplemental education
7. Ace Hardware - Hardware and home improvement stores
8. Culver's - Frozen custard, specialty burgers
9. Hampton by Hilton - Upper midscale hotels
10. Wingstop - Chicken wings, fries, sides

The 44th annual review of the top 500 provides valuable information for those looking to explore the franchising market and become a part of it. Namely, there is information about the operation of important franchising models, interest in expanding the franchising model in other countries, cost for starting the business and what ongoing fees the franchisor charges throughout the life of the business, number of employees required to run and other information necessary for franchising. Some franchisors offer in-house financing, while others have relationships with third-party financing sources to which they refer qualified franchisees. Franchisors offer initial training programs and a variety of ongoing support options to help

franchisees run their businesses (Entrepreneur, 2023).<sup>1</sup>

According to Kavaliauskė & Vaiginienė (2011), the franchise system development model covers six main areas that influence franchising as a business development model: elements of franchising, process of franchise development and functioning, management, marketing, legislative and human factors. Main franchising elements are the most important factors influencing franchise systems, whereas management, marketing, legislative and human factors act as their supplements. All these factors are one or another stage of franchise establishment and/or further development influence the franchise system and determine its success and effective growth. Franchising cannot exist without its main elements (brand, license, business system, taxes, investments) whereas all other factors only need to be developed to a certain level in order to reach efficient operation of the system.

Two main types of franchises are as follows (The IFA Educational Foundation, 2001): product distribution franchises and business format franchises. Product distribution franchises simply sell the franchisor's products and are supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. These types of franchising are particularly common in the following sectors:

soft drink distributors, automobile dealers and gas stations. Business format franchises, on the other hand, not only use a franchisor's product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals. Business format franchises are the most common type of franchise.

#### 4. ADVANTAGES AND DISADVANTAGES OF THE FRANCHISING BUSINESS MODEL

Franchising is a business model that has gained popularity in recent years. It is a type of business arrangement that permits an independent business owner, or franchisee, to use the branding, business model, and branding of a franchisor. The franchisee agrees to provide the franchisor with an initial franchise fee as well as continuous royalties. Like any business model, franchising has its advantages

and disadvantages that needs to be considered before deciding whether this model is appropriate for accomplishing the entrepreneur's objectives. The franchise business model's main advantages and disadvantages for the franchisee are discussed below.

According to Salar & Salar (2014), Tang (2017), Lauckner & Beaupre (2020), Thakur (n.d.), there are several advantages of franchising including: established brand recognition, lower failure rate, lower business risks, ongoing business support and training, easier access to funding, higher profits etc.

Salar & Salar (2014) emphasized the significance of branding in business and highlighted brand recognition as a marketing concept that signifies customers' awareness of a brand's existence. Franchising provides the advantage of operating under an established brand that people already recognize and are familiar with. Franchisees can capitalize on the established brand recognition by becoming part of a well-known franchise, thereby leveraging it to establish and thrive in their market.

Whether it is a franchise or an independent business, starting a business always involves risk. Franchises do, however, have a lower failure rate than independent business. When people buy a franchise, they become a part of a powerful brand and a strong network, which lowers the risk of a failing company. Franchises have already proven that their business model works, providing certainty that there is a market for the products or services they offer. The franchise network is one factor in the lower risk associated with franchises. Franchises are often owned by well-known organizations that have thoroughly examined and validated the franchise's business model in different markets (Lauckner & Beaupre, 2020).

Franchisees gain from the franchisor's substantial support and training, which makes it easier for them to launch their businesses quickly and effectively. The franchisor provides support in key areas like location choice, lease negotiation, and operational setup. Franchisees also receive ongoing training and assistance in crucial fields including marketing, customer support, and personnel management. Franchisees are equipped to manage their businesses successfully thanks to this extensive support. (Thakur, n.d.).

According to Tang (2017) franchise businesses have an advantage in accessing funding as they are perceived as less risky by financial institutions.

<sup>1</sup> On this page is information about franchise and business opportunities that are available for purchase: <https://www.entrepreneur.com/franchises/directory/fe>

atured-opportunities,  
<https://www.entrepreneur.com/franchises>

Compared to starting an own business, buying a franchise offers a ready market and quicker market penetration. Factors such as competition improvement, captive market, and reduced administrative costs contribute to reducing the risk of business failure. Consequently, franchise businesses find it easier to obtain funding from banks and other financial institutions due to their lower risk profile.

Franchisors offer a proven business model, established brand recognition, group purchasing power, ongoing support and training, group advertising and marketing campaigns, and expansion opportunities, all of which can contribute to increased profitability. Group purchasing power enables franchisees to purchase supplies and equipment at a lower cost, which can increase their profit margins. Ongoing support and training from the franchisor can help franchisees increase operational efficiency, reduce costs, and improve profitability.

Although there are a lot of papers about advantages of using franchising models, the disadvantages or drawbacks are rarely mentioned or they are left out. According to Salar & Salar, (2014), Lauckner & Beaupre (2020) and Stepanchuk (2016), although franchising provides numerous advantages, there are also drawbacks that a franchisor must deal with, such as:

High initial and on-going costs including startup costs, utilities, rent, franchise fees, labor costs, and taxes. For example some franchisors are looking for franchisee that dispose of a place with a certain surface area, equipping the store with certain furniture, and an initial amount for purchasing the certain goods. Also it is common for franchisors to look for a bank guarantee letter. Some of the franchising packages expect initial investment of the franchisee amount above 100.000 euros. Another issue is that franchisees have their own businesses but they are still tied to the franchisor's rules. Most franchisees find that having to adhere to the limitations outlined in the franchise agreement is their most challenging issue. For example there are some experiences where the franchisee is obliged to use the retail management software determined or approved by the Franchisor in all stores.

The initial investment and further development/maintenance costs belong to the Franchisee. As each franchisee is required by the franchise contract to run the business model in a specific way, franchising is known for being an inflexible way to conduct business. This might make it challenging for

a franchisor to change the structure of the company or introduce new innovative equipment.

Lack of financial privacy is another drawback of franchising, as it is typically stated in the franchise agreement that the franchisor can monitor the franchise's whole financial system. The franchisee should correctly fulfill the obligation of paying an on-going franchise fee. Usually this kind of fee is paid as a percentage of the total revenue that franchisee earns on monthly or yearly basis, as a result of use of the franchisor business model. According to some authors this fee is between 4 and 12 % of total revenue or more (Lederman, 2021, Libava , 2017). For this purpose the franchisor should have unhindered access to the franchisees financial data and documents.

As an obvious obstacle the legal gap or non regulation of franchising agreements is very often mentioned across the world. North Macedonia is not the only country that does not regulate the franchising agreement. Only 52 countries in the world mention franchising in any significant way in their legal systems (Zeidman, 2006). Getting correct and legally supported advice in terms of legal gap is really demanding and uncertain, especially after arising a dispute.

#### 4. RESULTS AND DISCUSSION: THE FRANCHISE BUSINESS MODEL IN THE REPUBLIC OF NORTH MACEDONIA – OPPORTUNITIES AND LEGAL ASPECTS

With the introduction of franchising in North Macedonia, academics began studying the franchising business concept. In recent years, the economic and legal aspects of the franchising business model in North Macedonia have been examined in several studies. The topics addressed in these studies are presented in Table 1.

Table 1. Analyses of franchising in North Macedonia

Authors	Topic
Erceg and Boškowska, 2020	Current franchising development situation in Macedonia and the opportunities and threats for further franchising development.
Erceg, 2019	Franchising model situation in several countries in the Balkan area
Grünhagen ae al., 2019	The historic development of franchising in the Balkans with a particular focus on the franchising industry in the past decade.
Jashari and Osmanaj, 2019	Legal treatment of franchise in Northern Macedonia and Republic of Kosovo

Damoska Sekuloska and Erceg, 2018	Franchising and smart contracts
Damoska Sekuloska, 2018	Franchising business model in Macedonia
Sofijanovska and Stoimilova, 2016	Franchising as support to business growth
Boškovska et al., 2016	The franchisor-franchisee relationship
Sotiroski and Filiposki, 2016	Legal and Economic Aspects of the Macedonian Model of Franchising
Jordanovska and Polenakovikj, 2013	Franchising as a model for starting a small business in Macedonia
Dabovik Anastasovska, 2010	Franchise activity's practical and legal aspects in Croatia and Macedonia

Source: Erceg, 2019 and authors' own research

Although Macedonian law does not specifically address franchising, the legal system in the country allows franchise agreements. According to Macedonian Law of obligations, there are no special norms that stipulate the franchise agreement, but that does not mean that franchising activity is prohibited. Contrary, there are a lot of business models that practice franchising. Contract parties in franchising while conducting a contract, usually use the Law of obligations and Law on industrial property rights, and trade practices and customs.

The Agreement for franchising was mentioned in the Law for protection of competition, which was enacted in 2005. According the Law for protection of competition, the Agreement of franchising was defined as a contract in which the franchisee for certain compensation takes an obligation that permanently on behalf of his name and his account will sell the products or services that the franchisor has produced or developed and in accordance with that franchisee will use exclusive rights of using of know- how, trademarks and services. Franchising agreement also was mentioned in The Government Decree on block exception on vertical agreements for exclusive right to distribution, selective right of distribution and the right to exclusively purchase and franchising. After the derogation of this Law and this Decree, the new Law for protection of competition, which was enacted in 2010, does not define the franchising agreement at all. The absence of clear legal regulations makes difficulties for the lawyers in North Macedonia while advising or counseling their clients interested in investing in franchising business models.

As a consequence of that, there is no official registry of franchising agreements in the Republic of North Macedonia, as well as license agreements in official Registry at the State Office of industrial property. In that manner we have a lack of information about the official and precise number of concluded franchising agreements in the Republic of North

Macedonia. There is a variety of information about the number of active franchises in North Macedonia. The study by Sofijanovska and Stoimilova (2016) indicated that there were around 10 franchise systems in North Macedonia, mainly concentrated around the capital Skopje. But, a study conducted by Boskovska, et al. (2016) presents survey data collected from 30 franchise systems in North Macedonia. Further, Boskovska (2017) states that there are 70 franchises present in the country at 130 locations, in 8 different sectors. In an interview conducted with Boshkoska Vera (June 2023), president of MakFran Association, estimates that at this moment there are more than 140 active franchising systems in North Macedonia in which around 98% are concluded with Macedonian franchisees.

According to the results of the authors' research, we found that there are several successful examples of implementing a franchising business model in North Macedonia especially in the retail, hotel, rental, education, finance and restaurant sectors, including Macedonian enterprises in a role as franchisors. We can conclude that the number of franchising business models in the retail sector has significantly increased after the opening of some shopping malls in the country. At the same time the number of franchising models has increased in the restaurant and hotel sector. There are few examples of successful running franchising business models, in which franchisor is Macedonian company, for example: the company Ohrid's pearl Filevi, franchisor to 5 franchisees in North Macedonia and Croatia (Naumoska, 2020, p.86), also Sara Fashion company, franchisor to 25 franchisees in North Macedonia, Serbia and Kosovo, IQ Up center for education, franchisor to more than 5 franchisees in North Macedonia, Bozinovski watches and jewelry franchisor to 1 franchise in North Macedonia. In sufficient way to increase the information about franchising models, franchising.mk, portal for business opportunities, offers a franchising catalog, where anyone that is interested in investing in well-known business model, could consider the offers and franchising package for some franchising models such as: Rakhia bar, Steiku Haoss, Chipas, Loft, CityPal, Edukido, Malac Genijalac, Young Engineers etc.

Also, there was a variety of information about the functioning of the Macedonian Franchise Association. According to authors of the international comparative Legal Guide (2016): Franchise 2016 (p.103), there is no record of any franchise associations existing in North Macedonia. An opposite answer, claimed by some authors, and "Guide to Doing Business and investing in

Macedonia” published by PWC in 2016, the Macedonian Franchise Association was founded in 2003 with the explicit objective of assisting domestic and foreign businesses in addressing the challenges associated with franchising. On the web site of the Association for franchising development and affirmation, Macedonian national franchising association, we found out that this association as a non-governmental and nonprofit organization was founded in 2018. Currently, members of the association might be any franchisor or franchisee or every entrepreneur that is interested in being part of this association. The main aims of this Association are increasing the level of use of franchising business models among entrepreneurs in North Macedonia, establishing adequate law framework and code of ethics for franchising in compliance with common practice, and promotion of the European franchising federation, and acceptance of its aims and norms and regulations. Unfortunately, the Macedonian national franchising association is not a member of the European franchising federation. The MakFran association has made an admission to the European franchising federation three years ago, but unfortunately this process is not finished yet. The president of the MakFran association expressed her hope that this association will become a member of the European Franchising Federation till the end of 2023.

## 6. CONCLUSION

Franchising can be a highly effective business model for entrepreneurial development, as it offers several benefits for both sides: use of the franchisor's trademark, systems, and other intellectual property rights, different types of support in marketing, operations, and management, access to new markets etc. The business franchising model is already available in almost all areas of operation and it is especially attractive for small and medium-sized enterprises. Enterprises have the opportunity to use product distribution franchises and business format franchises.

In order to encourage the franchise business model in North Macedonia and other similar countries where the franchise business model is not specifically regulated, it is necessary to provide systemic and regulatory support for it. Franchise business model in North Macedonia is still in the development phase, certain systemic, legal and human factors are missing. There are certain organizations and experts who provide support and consultation in the field of franchising, but full

system regulation is necessary in order to further develop this type of business.

It does not concern if the franchising agreement will be part of the Law of obligation, new Commercial code or new Civil code. But it is very important to become a part of the Macedonian legal framework. That will enhance the faith, legal certainty and potential use of franchising in Macedonia among domestic and foreign businesses.

It is expected that the situation with regulation of the franchising agreement will become slightly better, if the Macedonian national franchising association becomes part of the European franchising federation. In this direction, franchising agreements concluded in North Macedonia, should be in accordance with the European Code of Ethics for Franchising. The code serves as a practical ensemble of essential provisions and fair behavior for franchise members in Europe.

Governments should support franchise startups and franchisees through grants and loans that support small businesses. Transparent, available information and necessary franchise infrastructure will facilitate stronger growth of the franchise business model.

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