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RESILIENCE OF FRANCHISE SYSTEMS IN THE UNITED STATES AND POLAND TO SHOCKS ON THE EXAMPLE OF THE COVID-19 PERIOD

Key words: franchising, entrepreneurship, food distribution, economic crisis, trust, USA, Poland

ABSTRACT. The article deals with the issue of franchise as a distribution system. Participation in such systems brings many benefits, both for franchisors and franchisees. Still, the uneven bargaining power of the parties is significant, and effective actions require mutual trust and a certain autonomy of the parties. The work aims to determine how franchise systems reacted to the crisis caused by, among others, COVID-19 and whether food industry systems were characterized by higher resistance to shocks. The assessment was made based on data from the USA and Poland on the franchise according to the International Franchise Association and Profit System Sp. z o.o. for the years 2007-2021, and for a longer period when data were available. It found that the franchise sector shrank by around 10% during the pandemic, but after two years, the level of turnover and employment returned to pre-crisis levels. In the USA, food distribution and restaurant systems were more resilient to the lockdown crisis and quickly recovered to their previous turnover and employment levels. In Poland, the gastronomy brand industries accounted for as much as 35% of the systems, and grocery and industrial stores accounted for another 29%. The franchise industry turned out to be resistant to crises, and the high share of food distribution indicates that franchise systems are an effective solution in the food trade, mainly due to an efficiently organized supply chain and lower distribution costs.

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INTRODUCTION

Running a business involves a high risk of failure. This is due to the volatility of both the legal aspects of running a business and the volatility of the situation in individual industries as well as entry and exit barriers in the sector.

One of the solutions to reduce the risk, including the bankruptcy of enterprises, is using franchise systems. Entrepreneurs participating in such systems can use a verified business model, including the franchisor's know-how, trademark, support in the visualization of the point, product range, recipes and procedures for performing the service, staff training, customer service, merchandising, and marketing. However, choosing such a model of operation does not always lead to the franchisee's success. Research by Susan Chacko et al. [2022] shows that, for example, in India, about 15% of franchisees fail.

According to Nicolas Legendre et al. [2016] in the United States, franchise companies account for 2.5% of the GDP and provide 7.6 million employees and in Canada, about 76 thousand franchise outlets employed over 1.5 million people and accounted for 45% of Canada's retail sales and 5% of Canada's GDP in 2018.

In general, two franchise sub-sectors are distinguished. One is traditional or product-trade-name franchising, and the other is business format franchising [Baker, Dant 2008]. The company develops and expands without generating excessive competition in the market, as franchisees cooperate with the franchisor [Alnassar 2017]. Among the many features of such systems, it is emphasized that it is a knowledge distribution system in which information, innovations and improvements can be quickly disseminated [Hendrikse et al. 2015, Sichel, da Costa 2018]. This gives significant advantages to entrepreneurs operating in the system in relation to those operating independently [Sun, Lee 2019]. It is emphasized that it is important to allow a certain autonomy for franchisees based on trust. Otherwise, conflicts between partners arise [López-Bayón, López-Fernández 2016]. Trust is necessary as it reduces control costs, reduces conflicts and is the basis for better flow and use of information [Hendrikse et al. 2015, Rosado-Serrano, Paul 2018, Perrigot et al. 2021]. Some compensation for less control over companies is that the franchisor bears less business risk [Alon et al. 2021].

Among the advantages of the franchise, it is emphasized that such a distribution system enables the reduction of transaction costs in the distribution system [Hendrikse et al. 2015]. The franchisee takes advantage of the fact that it offers products of a large, often international brand, such products are more trusted by partners and customers, as they are perceived as high-quality brands [Cao, Kim 2015, Shumba, Zindiye 2018]. It also receives proven product and process standards. It is also possible to react faster to crisis events; such systems are more stable in crisis management, which results from systemic benefits [Skawińska, Zalewski 2021, Jędrzejczyk, Fetliński 2023]. From the system's point

of view, it is also important that franchisees may be subject to regulations and support for SMEs, and the importance of employee organizations is also less important [Callaci 2021].

The functioning of franchise systems also has weaknesses. This includes the deterioration of the brand image with insufficient control by the franchisor [Keskin 2016, Alon et al. 2021], but also too strong control and little autonomy of the franchisee, which makes it impossible to adapt the system to local conditions [Sun, Lee 2021]. As a result, they cannot always run a business profitably, and the greater bargaining power of donors leads to the collapse of recipients or contracts being terminated [López-Bayón, López-Fernández 2016, Perrigot et al. 2021]. There are even takeovers of companies resulting from unequal bargaining power, including legal ones [Callaci 2021]. The challenge in franchising is to ensure partners' economic benefits, increase competitiveness and efficient management of the supply chain [Chacko et al. 2022].

In the food sector, retail and restaurants, franchising can flourish because the benefits of efficient distribution of perishable products are achieved; there is less product loss and lower distribution costs [Chancey et al. 2016]. It was even found that expansion using franchise is more effective in the food industry than in other sectors [Alnassar 2017].

In recent years, Poland has seen an increase in the number of systems and franchise units, usually small and medium-sized enterprises. In 2022, over 1.35 thousand franchise systems and 87 thousand franchise units operate in Poland. Significantly, 80% of franchise systems in Poland are of Polish origin.

MATERIAL AND METHODS

The study aims to assess the dynamics and directions of the development of franchise systems in Poland in relation to the situation in the United States, including the presentation of the impact of restrictions related to the COVID-19 pandemic. The paper presents franchise development in the United States and Poland, a general classification of franchise systems is made, and the most important systems operating in Poland are presented.

The work uses secondary data from the literature on the subject, data from organizations associating franchise units in the USA and Poland, i.e. the International Franchise Association and the franchising.pl portal, including Profit System Sp. z o. o. Data for the years 2007-2021 were used, and to illustrate the development of the franchise in Poland, data since 2001.

DEFINITION AND ESSENCE OF FRANCHISING

A review of the literature on the definition of franchising and franchising was made by Dominika Rutecka [2020]. In the study, she presented 11 definitions from various authors and organisations. Their common element emphasises the following features of such a business method: paying the right to sell and offer products and services under the marketing system of another enterprise, using its name, trademark and business experience. A franchise agreement is a method of development and expansion based on the cooperation of the author of a business venture (franchiser) with numerous smaller investors (franchisees) with adequate capital and time to run their own business [Wrzesińska 2011, Adamus 2020].

According to the European Code of Ethics for Franchising, “a franchise is a system of selling goods, services or technologies that is based on close and continuous cooperation between legally and financially separate and independent enterprises: the franchisor and its individual franchisees. (...) Under and for the duration of a written franchise agreement and in return for direct or indirect financial consideration, this right entitles an individual franchisee to use the franchisor’s trade name, trademark or service mark, know-how, business methods, technical knowledge, system of conduct and other intellectual or industrial property rights, as well as to use the continuous commercial and technical assistance of the franchisor” [Franchising.pl 2012].

The three main pillars of the franchise are [Ziółkowska 2020]:

- brand, the purpose of which is to identify goods, services or units and to distinguish them from the competition,
- know-how, means technical and non-technical knowledge (commercial, administrative, organizational, financial), useful to perform a specific type of economic activity, most often it is specified in the so-called “operating manual”, which contains a description of the rules of conducting business activity of a given franchise system, including formulating procedures and standards of a given system,
- support provided by the franchisor, thanks to which the network develops.

Franchise systems vary by industry. It affects many factors: growing competition, the development of communication technologies, the evolution of customer needs and the law. On the one hand, changes create new opportunities for development, and on the other hand, they affect the operation [Wrzesińska-Kowal 2016].

FRANCHISING HISTORY IN THE WORLD AND POLAND

The franchise in today's form was initiated in the USA. Companies such as Signer, General Motors and Coca-Cola can be considered as the beginnings of its creation. These enterprises diversified distribution channels and increased the geographical area of product availability by proposing to other entrepreneurs an agreement giving the exclusive right to sell products in exchange for providing capital needed for development. The advantage for the network organisers was primarily lower financial outlays and transferring the costs of marketing activities to other entrepreneurs, mainly dealers. Car manufacturers also concluded similar agreements. General Motors Corporation organized a network of sales and dealers granting territorial exclusivity, which protected dealers from competition in a given area. Currently, according to estimates, 95% of all car sales are made by franchise units [Ziółkowska 2020].

FRANCHISING IN THE UNITED STATES

Franchising in the US is well-developed. In 2019, over 773.6 thousand franchise outlets employed over 8.34 million people. For comparison, 11.4 million people worked in the construction sector in the United States in 2019 [NIOSH 2019].

The number of franchise outlets in the US is stable. However, there were periodic fluctuations in the number of franchise units resulting from the economic situation.

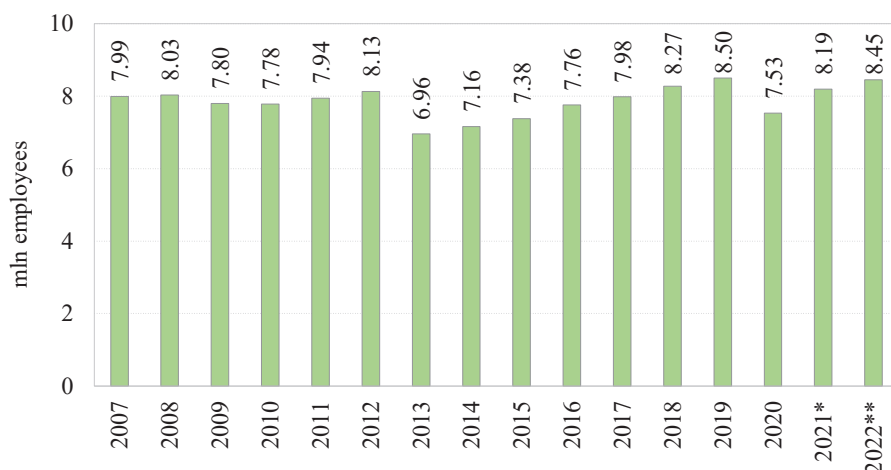


Figure 1. Number of people employed in franchise units in the USA in 2007-2022

* estimate, ** forecast

Source: [IFA 2022, FRANdata]

For example, in the 2007-2013 period, there was a decrease in the number of franchise units, and in 2013 there were 9.5% fewer of them than in 2007. This was due to the financial crisis. In 2014-2019, the potential was restored, and an increase of 10.8% was observed. Restrictions related to the COVID-19 pandemic hurt the number of units (a decrease of 2.6% in 2020). Employment changed similarly, since 2014, a steady increase in employment was recorded, and in 2020 the decline in employment amounted to as much as 11.2%, which resulted in the loss of 940 thousand employees (Figure 1). The number of companies increased again in 2021 to 774.97 thousand units, and in 2022 (preliminary data), up to 792 thousand units, i.e. more than before the pandemic. Employment in 2021 increased to 8.19 million, and in 2022 to 8.45 million employees, i.e. to the state before the pandemic [IFA 2022].

STRUCTURE OF FRANCHISE SYSTEMS

In franchise systems in the United States, both the number of units and employees were dominated by the fast-food restaurant industry. In 2019, there were over 196.7 thousand fast-food restaurants in the USA, which accounted for 25.4% of all units. These entities employed over 3.88 million people, constituting 46.0% of all franchise entities' total number of employees.

COVID-19 resulted in a decrease in the number of fast food restaurant units from 196.8 thousand units up to 183.5 thousand units (a decrease of 6.7%, comparing 2020 to 2019), while the number of employed people decreased from 3.88 million people to 3.54 million people (reduction by almost 8.4%). IFA provides data on the increase in branches to 188.4 thousand in 2021 and up to 192.4 thousand in 2022, while employment to 3.73 million people in 2021 and 3.81 million people in 2022 (Table 1).

After the COVID-19 pandemic, an increase in the number of units and the number of employees in franchise units can be observed. The number of people employed in franchise units in 2021 compared to 2020 increased by 0.66 million employees, i.e. by 8.8%.

In 2007-2021 in the USA, franchise enterprises' revenues increased from USD 675 billion to USD 780 billion, with periodic fluctuations resulting from the financial crisis and the COVID-19 pandemic. In 2013, a decrease in total revenues by approximately 25.7% was observed. In 2020 (COVID-19), revenues decreased to USD 670 billion, i.e. by 14.9% compared to 2019. Estimates indicate that 2021 sales revenues again reached USD 780 billion, similar to the 2019 level [IFA 2022].

Labour productivity in companies participating in franchise systems in the USA in 2013-2022 increased in all industries (Figure 2). It grew from USD 82 thousand to USD 97.8 thousand per employee, i.e. by 19.3%. The highest increase in labour productivity was observed in trade in food, other products and services (over 2.8 times), real estate

Table 1. The number of units and the number of people employed in the franchise in the USA in 2019-2021 by industry

Item	Number of units [thousand]					Employment [thousand]				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Business services	103.9	102.6	97.7	99.3	100.7	629.0	624.4	564.8	586.5	604.4
Commercial services	66.5	67.2	73.1	75.6	77.7	250.3	252.8	253.7	288.5	303.1
Hospitality	33.2	34.0	34.5	35.0	35.5	740.7	758.1	510.8	664.9	710.0
Personal services	114.1	118.8	110.1	114.0	117.6	519.4	547.1	475.6	527.7	552.7
Fast food restaurants	194.4	196.8	183.5	188.4	192.4	3,770.4	3,880.6	3,544.8	3,728.4	3,810.0
Real estate	64.2	65.3	66.3	67.9	69.3	256.3	262.1	245.4	266.0	277.5
Trade in food, products and services	151.4	155.6	157.5	162.6	166.0	1,020.0	1,061.7	1,014.1	1,069.8	1,095.3
Full-service restaurants	32.8	33.2	31.0	32.0	32.8	1,088.4	1,116.9	923.1	1,011.1	1,096.1
Total	760.5	773.6	753.8	775.0	792.0	8,274.5	8,503.7	7,532.3	8,192.6	8,449.2
Year to year change [%]	-	1.7	-2.6	-3.5	2.2	-	2.8	-11.4	8.8	3.1

Source: own elaboration based [IFA 2022, p. 6-7]

(59.6%), followed by the hotel industry (23.3%), fast food restaurants (22.8%), business services (20.1%) and full-service restaurants. A much smaller increase was recorded in the case of commercial services (13.1%) and personal services (7.8%). Only in some sectors and some years was a decline in labour productivity observed.

The real estate sector was characterized by the highest labour productivity, which increased from USD 138.9 thousand to USD 221.6 thousand per employee. In 2013-2022, labour productivity in the real estate industry was twice as high as the average. Other sectors with high labour productivity include commercial services, business services and the hotel industry – labour productivity was higher than average by 88.5%, 68.8% and 25.4%, respectively.

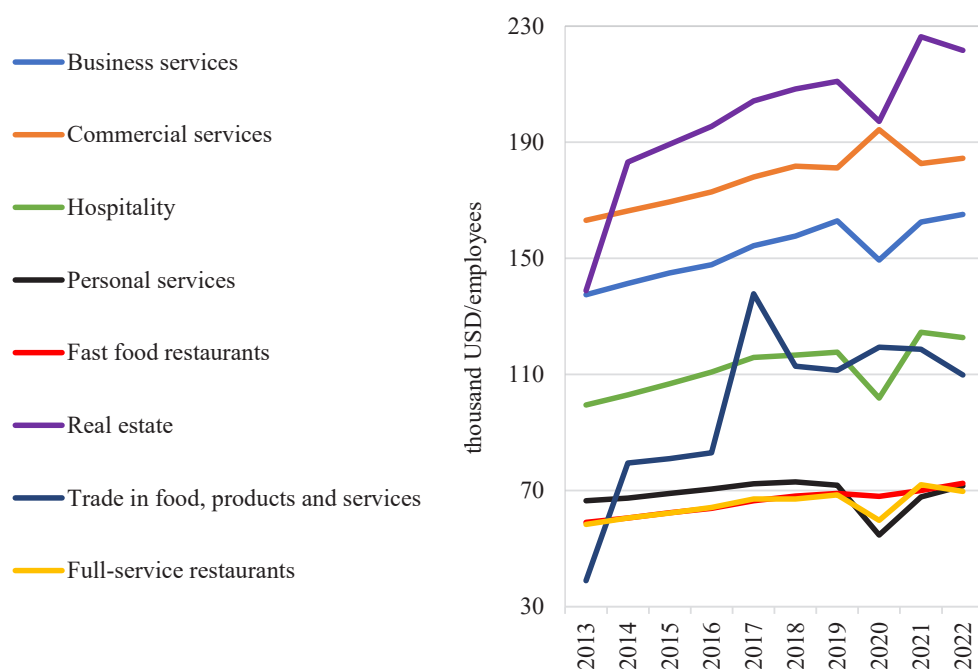


Figure 2. Labour productivity by industry in franchise outlets in the United States in 2007-2021 with a forecast for 2022

Source: own elaboration based on [IFA 2022, IHS Markit, FRANdata]

The COVID-19 pandemic and related restrictions caused a decline in labour productivity in almost all industries in 2020, the largest in personal services (-23.9%), hospitality (-13.5%) and full-service restaurants (-12.9%). The increase in labour productivity was visible only in the commercial services sector (by 7.3%) and trade in food, products and services (by 7.2%).

FRANCHISE DEVELOPMENT IN POLAND

In Poland, solutions similar to franchises were first seen in the 1950s, when the PKO bank opened the so-called agencies, i.e. cash points in smaller towns and workplaces. Subsequent franchises were established in the 1970s, when some Orbis hotels joined foreign franchise systems, thanks to which the InterContinental and Novotel chains appeared in Poland [Ziółkowska 2020].

The political transformation in Poland allowed foreign investors offering franchise systems to enter the Polish market. French companies introduced the most significant number of franchise systems to the Polish market, among which the following brands can be mentioned: Yves Rocher, Jean Louis David, Camille Albane, Franck Provost, Eric Stipa and Frederic Moreno, as well as Intermarché, Bricomarché, E.Leclerc and Cache Cache [Wrzesińska-Kowal 2016]. The first store of the French drugstore Yves Rocher operating under a franchise opened in 1990 at Chmielna Street in Warsaw [Stawicka 2013]. An important date for the beginning of the franchise in Poland was 1994, when the first American McDonald's restaurant was opened in Bydgoszcz, and 1995 when the first KFC outlet appeared in Szczecin [Wrzesińska-Kowal 2017].

Polish entrepreneurs – owners of well-known brands on the market – quickly became convinced of the franchise system. The precursors were the owners of Mr Hamburger restaurant and A. Blikle confectionery. At the same time, in 1993, activity in franchising began the “Pożegnanie z Afryką” cafe chain [Wrzesińska-Kowal 2016].

NUMBER OF SYSTEMS AND FRANCHISE UNITS IN POLAND

The number of systems and franchise units in Poland in 2002-2022 increased from 175 to 1,350, i.e. almost eight times (Figure 3). The highest annual increase was recorded in the years 2007-2009, and it was respectively 23.1%, 27.65% and 21.08%. In 2008, the number of franchise chains exceeded 500, and Polish companies (mainly clothing and footwear) began to expand into foreign markets [Wiśniewski 2022]. The increase in the number of franchise units in 2002-2020 had similar dynamics as the increase in the number of systems. At the end of 2022, there were already 1,350 franchise systems and 87 thousand franchise units operating in Poland [Wiśniewski 2022]. During the period of restrictions resulting from COVID-19, periodic closures of businesses were observed. Some industries, e.g. fitness, incurred losses, and some industries, such as food trade, even gained in turnover. In Poland, unlike in the USA, during the period of restrictions related to the pandemic, there was no decrease in the number of franchise outlets, and even a slight increase was observed due to the development of systems related to retail trade. Taking over part of the investment risk by franchisors in such systems may be one of the current development factors. For future, the uncertainty about maintaining the growth rate results from rising costs: rent, energy, salaries.

Despite the relatively late introduction of the franchise in Poland compared to other countries, this market seems to be entering the maturity stage. Since 2015, the growth rate of the number of systems and franchise units has slowed down to about 3% per year. This resulted not only from the saturation of the market with franchise systems but also from the fact that it is currently challenging to attract new licensees, especially if the franchisor

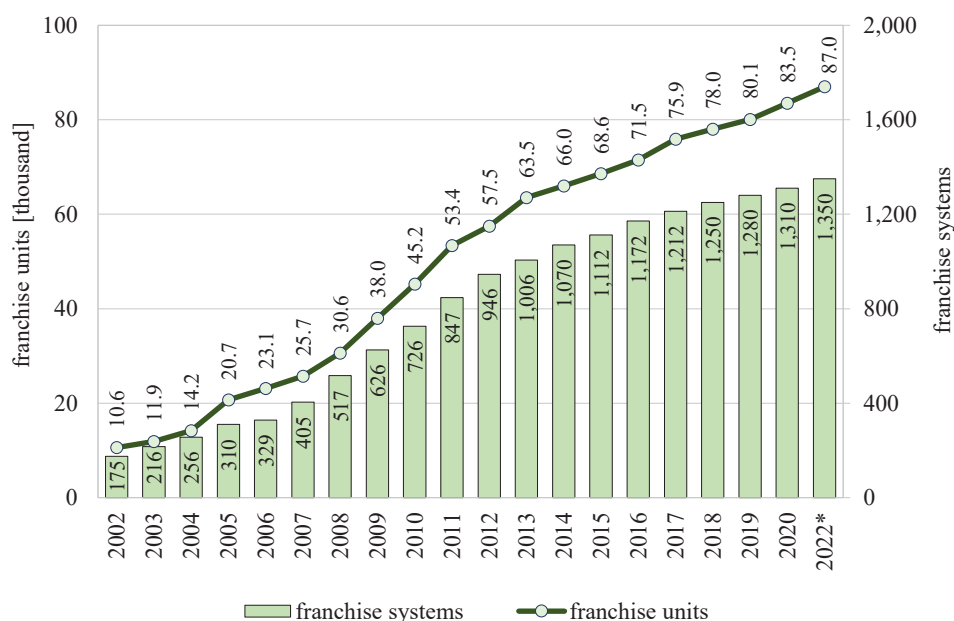


Figure 3. Number of franchise systems in Poland in 2002-2020

* estimate

Source: own elaboration based on [Wiśniewski 2022]

does not have a very attractive, distinctive offer. In 2020, no reduction in the number of franchise units in Poland was observed, which means that these systems proved to be resistant to crises, e.g. related to the COVID-19 pandemic.

According to data on franchises in Poland, the median investment of franchisees in commercial systems was PLN 80 thousand, and PLN 45 thousand in service systems. However, a wide range of investment values was observed. And so for trade, it was from PLN 45 thousand to PLN 300 thousand, and services from PLN 15 thousand to over PLN 220 thousand. Investments in specialized facilities, such as gas stations or representative offices of tourist operators, exceeded these values, but these figures are not typical for the market. Units with a franchisee's investment of up to PLN 100 thousand accounted for 70% of the total (Figure 4).

Domestic franchise chains have been dominant in Poland for many years. In 2018, the share of Polish franchise chains accounted for nearly 80% of all franchise brands operating in Poland and over 85% of franchise units. Unlike foreign ones, they often require much smaller financial outlays necessary to start a business on a franchise basis because these are smaller companies, according to the market structure in Poland, especially outside large cities.

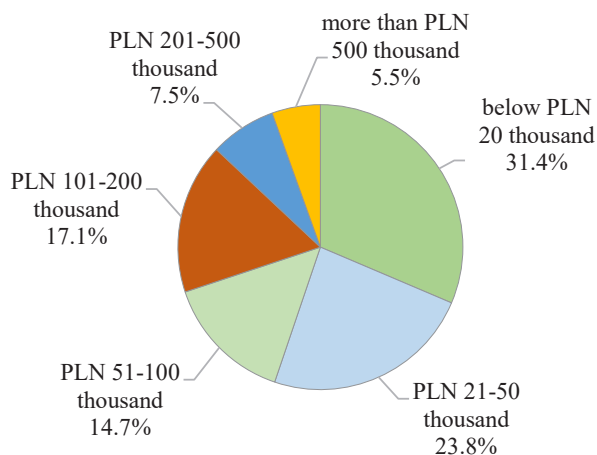


Figure 4. Structure of franchise units in Poland by initial investment value
Source: own study based on [Franchising.pl 2018]

In 2017, 561 commercial franchise systems were operating in Poland. The most numerous systems are grocery stores and shops with industrial goods (28.88%). The next place with a similar result was occupied by clothing and footwear brands shops – 27.63%. Petrol stations accounted for a minor percentage – 2.32%. 626 franchise systems were operating in the services sector. Brands from the catering industry had the largest share (35.5%), with the smallest share having real estate services (4.3%) and consulting services: legal and economic (3.2%).

For years, the franchise in Poland has been dominated by the trade of food and industrial products sector. Small and medium-sized grocery and industrial stores, supermarkets, liquor stores, bakeries and automotive supply stores are classified within this group.

CONCLUSIONS

Franchising is one widespread system of cooperation between enterprises, enabling market expansion for franchisors and opportunities for development for franchisees. Functioning in franchise systems is associated with many benefits, including access to a well-known brand with a well-perceived reputation, access to the distribution system, and obtaining proven business management solutions. For the efficient functioning of the franchise system, it is necessary to share benefits that are satisfactory for the parties, maintain a certain autonomy of recipients and have stable cooperation resulting from trust in partners.

Based on the results for the USA and Poland, it was determined that during the period of restrictions resulting from the COVID-19 pandemic, the number of units, employment and turnover in franchise systems decreased by more than 10%. In the two years since the

pandemic began, franchise activity levels have returned to pre-pandemic levels, so these business systems have proven resilient to the shocks of the crisis.

In Poland, the franchise is still developing, although since 2018 the growth dynamic has slowed down, which may mean the market saturation. About 50% of franchise units operate in the gastronomy, food and industrial goods sectors. The high growth dynamics resulted from a relatively low risk, using proven business formats and relatively low initial capital expenditures. The required initial expenditure for over 70% of units did not exceed PLN 100 thousand, so it is a solution suitable for small and medium-sized enterprises.

Considering the development analogies and the observed development dynamics, it can be concluded that the market's saturation with franchise systems is observed in Poland. In the future, the development of existing networks can be expected, especially in food distribution systems with large spatial dispersion of facilities. This is due to cost advantages in distribution and the ability to reduce losses in the supply chain.

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ODPORNOŚĆ SYSTEMÓW FRANCYZYLOWYCH W STANACH ZJEDNOCZONYCH I POLSCE NA KRYZYS NA PRZYKŁADZIE OKRESU PANDEMII COVID-19

Słowa kluczowe: franczyza, przedsiębiorczość, dystrybucja żywności, kryzys gospodarczy, zaufanie, USA, Polska

ABSTRAKT. W artykule podjęto zagadnienie franczyzy jako systemu dystrybucji. Uczestnictwo w takich systemach daje wiele korzyści, zarówno dla francyzodawców, jak i franczyzobiorców. Znacząca jest jednak nierówna siła przetargowa stron, a skuteczne działania wymagają wzajemnego zaufania i pewnej autonomii stron. Celem pracy jest ustalenie, jak systemy franczyzowe zareagowały na kryzys wywołany m.in. COVID-19 oraz czy systemy zaliczane do *food industry* charakteryzowały się wyższą odpornością na szoki. Ocenę wykonano na podstawie danych o franczyzie z USA i z Polski według International Franchise Association i Profit System Sp. z o.o. za lata 2007-2021, a w miarę dostępności za dłuższy okres. Stwierdzono, że w okresie pandemii sektor franczyzy skurczył się o około 10%, ale po dwóch latach poziom obrotów i zatrudnienia wrócił do stanu sprzed kryzysu. W USA systemy zajmujące się dystrybucją żywności i restauracjami charakteryzowały się większą odpornością na sytuację kryzysu związaną z ograniczaniem przemieszczania się i szybko odzyskały wcześniejszy poziom obrotów i zatrudnienia. W Polsce branże marek gastronomicznych stanowiły aż 35% systemów, a sklepy spożywcze i przemysłowe to kolejne 29%. Branża franczyzowa okazała się odporna na sytuacje kryzysowe, a wysoki udział dystrybucji żywności wskazuje na to, że systemy franczyzowe są skutecznym rozwiązaniem w handlu żywnością, głównie ze względu na sprawnie zorganizowany łańcuch dostaw oraz niższe koszty dystrybucji.

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