



CHAPTER V

SUMMARY AND CONCLUSION

Business organization in Thailand has changed enormously. From the small, family owned firm of the early stage, the development of national and international markets linked by improved transportation and communication led to larger-scale firms. Organization changes when their environment changes. Faced with the aggressive marketing strategies and advertising from the larger firms, the small business has to adapt to survive. Franchising is one of the appropriate organizations for doing business today. Franchising is a business arrangement, which has achieved a phenomenal growth rate in the U.S.A. and is now beginning to gain ground in Thailand. There are many reasons for the franchisor to select franchising over other available means of distribution and the franchisee to take up a franchise rather than independent business operating.

From the franchisee point of view, a franchise is attractive for many reasons. First, the franchisee has the incentive of becoming the owner of a business supported by the assistance from the franchisor that included location selection, operate plan, financial assistance for the acquisition of the franchised business, formal training, and purchasing equipment and merchandise inventory. Second, Franchisee is called as an independent business who run the business within the framework of the franchise agreement and able to effort maximize value of the investment by himself that would be beneficial to investor who lack of basic or specialized knowledge and experience is over come by the training program of the franchisor. Third, the franchisee's business opened with the benefit of a name and reputation (a brand image) and goodwill, which is already well established in the consumer perception. This may reduce the lead-time to creating market recognition and business successful. The franchisee has the benefit of the use of the franchisor's patents, trademarks, trade name, trade secret and business format, national scale (if appropriate) of the franchisor's advertising and promotional activities, and also the benefit of the bulk purchasing and negotiating capacity of the franchisor on benefits to the size of operation. The risks of business failure are substantially reduced. However, no franchisee should consider that under the umbrella of the franchisor there is no risk at all. All business undertaking involve risk, and a franchised business is no exception.

To be successful, the franchisees have to work hard and concentrate to their business. The franchisor will never guarantee great rewards for little effort. Disadvantages to the franchisee are that inevitably the relationship between the franchisor and franchisee will involve the imposition of controls. These controls will regulate the quality of the products and services, which are distributed by franchisee. The franchisee has to get along with the franchisor's regulation because it is not only a direct path to success but also indirect to their brand name. The franchisee will have to pay the franchisor for the services provided and for the use of the blueprint i.e. franchise fee, royalty fee. The franchise contract will contain some restrictions against a substantial payment for the business transferred. Moreover, the franchisee may find they are becoming too dependent upon the franchisor. This reason can motivate franchisees to create their own business to obtain higher profit.

Franchising contains opportunities on both sides of the fence. We have already presented the franchising story from the viewpoint of the potential franchisees. Now we shall briefly look through the eyes of the potential franchisor. Advantage to franchisor, franchising allows franchisor to expand without diluting their capital. The firm involved in franchising, in effect, through fee and royalty arrangements, borrows capital from the franchisee for channel development and thus has lower capital requirements than does the wholly owned chain. Meanwhile, franchisees, as independent businesspeople, are probably more highly motivated than salary employees because of profit incentive and their vested interest in the business. Since franchising is decentralized, the franchisor is less susceptible to labor-organizing efforts than are centralized organizations. Franchising lets a business enter many more markets much more quickly than it could use only its own resources.

There are also distinct drawbacks associated with franchising from the franchisor's perspective. First, a franchisor's right of control is greatly reduced in the franchising form of business. This is a major concern for most franchisors. Second, there is generally more expense associated with nurturing the ongoing franchise relationship-providing accounting and legal services-than there is with centralized organization. Franchising has undoubtedly enabled many individuals to enter business who otherwise would never have escaped the necessity of salaried employment. Thus franchising has contributed to the development of many successful small businesses.

This study discovered that there are many factors influencing the success and failure of franchise. If each party takes his role with responsibility and systematically, the success will be achieved. The franchisor should prepare the system and staff to assist and support their franchisee to set up business successfully. He should screen the franchise with quality and qualification consideration rather than quantity concentration. He should provide the concrete training and initial assistance to get the franchisee into business effectively.

Further, the franchisor has to maintain the ongoing services and the brand image through advertising and controlling all franchisees to the same standard. The creative and initiative idea to improve their product to serve market demand is also crucial task in franchise business but this must not deteriorate the quality especially the ability to control the standardization of both product and service of all outlets. Each party must appreciate how essential are co-operation and mutual dependence.

During the year 1991 to 1994 there was 135 franchise in Thailand excluding the gas station franchise, in 1995 found that most of new franchises were retailing. Assume that every one-month had 3 new franchise brands, every day had new 2-3 franchise stores and one new franchisee establishes in the market.(Table 2.1)

From the survey of 300-franchise entrepreneur by Media franchise, 54% was satisfied by their franchisors. Average of investment amount is 2-3million Baht that can generate 1-500,000Baht income/per month, 1-30,000 Baht net profit per month. The advantage of franchise is the guideline of franchise system, operation manual, and main support from franchisor that new investor can operate their business easier. Bookstore, IT market, convenience store and hotel able to generate profit more than 90,000Baht per month, depended on outlet location and intensity of both franchisor and franchisee to run franchise business. 7-Eleven is the outstanding example of successful franchise in Thailand. At the end of 1996 they opened 700 stores (330 company owned, 370-franchisee store) generated more than 5,000million Baht.

There is a franchise research operated by Opportunity & Franchise magazine concentrated to both foreign and domestic franchise. The result of research can conclude as follows, the expansion of franchise and franchise granting has had rapid growth during the booming of Thai's economics (1992-1997). Convenience store, Education center Information and Technology (IT) business and Food business have highest rapid growth rate. Since 1998

the expansion of Franchise faces the slow down period due to Nation economic crisis. Some franchise was terminated. Statistic of franchise investor, female has higher percentage to operate her business by joining franchise system especially in education center business line. Most of franchisee has education background in undergraduate level and their post-occupation is merchant. Bangkok Metropolitan still popular area to invest and open franchise outlet about 56.5% while suburb area has 43.5%. But some franchises propose to grant franchise into suburban than Bangkok area because high potential areas in Bangkok are almost reserved by the well-known brand name. At the same time, high competition of Bangkok's market involved not only high cost but also high risk for the new comer too.

The potential area of franchise's expansion, Chiang Mai and Hat Yai gain high percentage means these locations have potential and ability to operate franchise business. Major considering factor is that the number of its population and the number of tourist. Some franchisors' does not consider only population factor only but also the efficiency of local franchisee. The efficiency of franchisee may consist of financial background, education background, and intention to operate the business.

To open a franchise out let franchisee may obtain support from their franchisor but the percentage of support may vary by characteristics of each business line i.e. Retailing may require more training support than other lines, the franchisee in suburb may require support to the transportation system. Basically operation manual is an important condition that franchisor respond to support their franchisee. The research shows that some franchisor do not have operation manual to their franchisee. We can assume that the franchisors that do not support operation manual could be domestic franchise because in foreign country operation manual is a crucial part of whole package that states in franchise law. Moreover, From the year 1998 to 1999 the satisfaction rates of franchisee to franchisor decrease from 54% to 47%. We assume that the decreasing rate may caused by the failure of franchisee to operate their outlet. As we discuss above, the franchise system is the guideline and format to operate the business but it is not guarantee the success.

Although major franchise system in franchise market comes from foreign country, there is local franchise that established by local entrepreneur such as Narai Pizzeria, Chester's Grill, Black Canyon. Nowadays, Thais franchise system is developed to create brand recognition and

perception from customer. Many local franchisors are improving their management system, developing their staff to offer stronger support to their franchisee and creating brand awareness to compete with foreign brand and gain higher market share in market place. Along this trend, we expect to see an increasing number of local franchise not only in nation market but also widespread to international market.

From the study of the Pizza Public Co., Ltd. conclude that major factors influencing success of the company are efficiency of management system, systematically operation, and continuous development. These factors are core concept of The Pizza Public Co., Ltd. to support their efficiency expansion. For example they established Minor Cheese to produce and supply cheese, major raw material of pizza, to Pizza Hut and Minor Dairy to produce and supply ice cream to Swensen's and Dairy Queen which involved import substitution, cost reduction and increasing strength of competing power against their competitors. The continuous business of The Pizza Public Co., Ltd. is not concentrated only Pizza Hut brand but also covered all brand that they are franchisee. for example Swensen's, Sizzler, Dairy Queen, etc. which have continuous growth rate and market share. Nowadays The Pizza Public Company Limited able to operate not only Pizza Hut and their existing brand name but also the new brand as Burger King and Chicken Treat. the information is confirmed by Tricon Global Restaurant. On 14 February 2000, Tricon opened Pizza Hut at Imperial Lad-Prao as his first outlet in Thailand. Tricon may face hard work to gain market share from Pizza Hut, by The Pizza, because of fewer outlets, higher cost-Tricon has to import cheese form New Zealand that lead to higher cost

All above information we can conclude that both international and local franchise is a guideline to run a new business but it might not guarantee success for investor. To succeed in franchise business it is not depend on franchise system only but also cooperate and intention of franchisor and franchisee.