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FRANCHISING AS A POTENTIAL GROWTH STRATEGY

For a small enterprise

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DESCRIPTION

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Abstract <p>This thesis is to examine franchising as a possible growth strategy for a clothing store called Aku & Ada. The company is new; it has been open for only eight months now. Already during the business plan writing process was franchising brought up as a possibility for the company. The purpose for this thesis is to find out whether franchising could be an option for Aku & Ada to expand their business operations.</p> <p>The theoretical part has been separated into two different categories. The first part covers growth of business operations and different strategies to grow in general. The second section discusses franchising as a growth strategy comprehensively and concentrating to look at franchising from the franchisors point of view.</p> <p>The empirical part of this thesis is also divided into two. The first part covers the purpose of this thesis, the description of research methods used, and how the data was collected. The second part opens up the findings from the two qualitative interviews implemented. After which there is the chapter which discusses the key findings and recommendations for the company. To finish there are the concluding remarks.</p> <p>Based on the results of the research, Aku & Ada is not in a state of operations to expand just yet. When the time is more favourable, franchising could be an option for the company. Some modifications might have to be carried out in order to create a better fitting concept for franchising.</p>			
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1 INTRODUCTION

Aku & Ada is a clothing store that sells brand clothes in Leppävirta, a town of a little over 10 000 inhabitants close by Kuopio. The owners are a mother and a daughter; both of them having a strong experience of the industry and a business education as their background. The target group for the company are young and youthful adult women and men. Aku & Ada provides all encompassing clothing services; they sell clothes, accessories (bags, belts, and jewellery) and shoes. In addition they give clothing advice to people with strong experience in fashion, they even organise fashion nights, help customers to find their personal style etc. The new store opened in March 2010 and so far the business has been operating satisfyingly. Even to the extent that the future options of growing the operations interest the owners and this thesis will provide information on one of the possibilities.

Research always has a purpose or a function. The purpose guides the strategies for the research (Hirsjärvi et al. 2009, 137). The research question was what requirements are needed for Aku & Ada to become a franchise business. A year ago Riikka Pitkänen, the chief executive officer of Aku & Ada was writing a business plan for a clothing store which was also her bachelor thesis. Behind the business operations are Riikka Pitkänen along with her mother Ulla Pitkänen. The former owned a clothing store in the same town with the same name during the 1990's. After pondering with the idea of opening the store up again and considering the experience Riikka Pitkänen has received of the industry and the BBA degree they decided to go for it and start Aku & Ada again, this time as an ltd. During the process of writing the business plan also franchising was brought up as a possible strategy in the future. The main focus of this research is to introduce franchising as a potential growth strategy for the company. As well as analyse what possibilities franchising offers for Aku & Ada.

This thesis is a qualitative research on what requirements are needed for a company in a clothing industry to expand its business operations by becoming a franchise business. First covered are the theoretical aspects of growth of a company and different options for growing. Then the theory concentrates deeper to franchising operations; its history, terminology, contract types, advantages and disadvantages, women and franchising, franchising in Finland and the current state of franchising. After the theoretic-

cal part there are presented the research methods and findings. The research is based upon two qualitative interviews, first one of the two owners of the company and second one the executive manager of the Finnish Franchising Association. Finally there are the analysis and conclusions with recommendations for the company.

In a nutshell franchising is examined from theoretical perspective, from authoritative perspective and applied to a growing company's perspective. As a result from all the three perspectives are gathered the conclusions and summarised the requirements for beginning franchise operations.

2 BUSINESS GROWTH

The main theme of this thesis is franchising. Before getting into the theory of franchising, some other aspects of growing the business and options for growing the operations are presented.

2.1 Growth entrepreneurship

Growth entrepreneurship is usually described as a company that is innovation based and has internationalisation as a wider goal. Growth is not the purpose for a company but a result of competitiveness, knowhow and innovativeness, which makes it difficult to give a specific definition for the concept. In some economies when a company's turnover exceeds 20 per cent on average it can be called a growth enterprise. At the same time the same economy might only be producing few innovative companies that might grow their turnover by 100 per cent (MEE Publications Innovation 42/2009 - The report of the growth and entrepreneurship monitoring group).

The growing companies that have the exact goals of growth and innovativeness, and invest into the right knowhow will affect the economy around them by increasing employment, national production and productivity. Fast growth also requires attitude and knowledge. Therefore humane capital that is ready to adapt to a fast pace of change is an essential factor in growth, and as a result growth enterprises employ highly educated labour force more often than other companies (MEE Publications Innovation 42/2009 -The report of the growth and entrepreneurship monitoring group).

Especially in small home markets growth requires a fast internationalisation. Therefore the ability to operate in the global markets is essential for a growing company. Another requirement for growth is finance. For high risk projects it can be difficult to get a loan which is why venture capital finance is popular and essential for growth enterprises. Growth enterprises also typically have cooperation with universities and universities of applied sciences as well as research institutes. It is typical for a growth enterprise that the possible profits of the company are kept for the growth and development of the company rather than taken out as revenue and salary for the entrepreneurs (MEE Publications Innovation 42/2009 -The report of the growth and entrepreneurship monitoring group).

To compare the magnitude of the growth internationally can be demanding due to the differences in measuring growth. Growth can be in turnover, revenue or personnel, it can be fast or long-span, it can be organic or base on buy-outs. Also the definition of growth enterprises varies which makes it very difficult to compile statistics on the subject (MEE Publications Innovation 42/2009 -The report of the growth and entrepreneurship monitoring group).

2.2 Growth in smaller scale

Before going international it is typical for the business first to expand the operations in the home country's markets. This can be done in several ways and the same operations can be executed in a larger scale as well.

Internal growth can mean several improvements and/or operations implemented within the company in order to increase sales, revenue and profitability of the company.

Product development can mean to come up with a whole new product in order to extend the product line or improve an already existing product or service. *Increasing market penetration* could be achieved by greater marketing efforts or increasing production capacity and efficiency, which both can lead to increased sales (Barringer, et al. 2010, 482-486).

Geographic expansion is considered when the company cannot expand in the present location but has reasons to believe that product/ service attracts the consumers in other

location as well. Company owned outlets require large capital and direct managing on all the aspects of the business, which makes this a slower way to grow in size and the return on investments are slower compared to franchising. When opening a company owned unit in another location the manager has to balance between the already existing and the new unit. This can cause a lack of attention to the original unit and be harmful for the business operations. On the other hand there are no middle men (franchisees) in between if/when the profits start to flow in (Barringer, et al. 1998, 467, 471; Keup 2007, 65; Barringer, et al. 2010, 521).

An alternative that does not grow the business but can be considered an option is to continue the business in the same way as before and avoid the hassle of expanding production, starting franchising operations or other cooperation with other entrepreneurs. The costs stay the same and the owner gets all the profit that come in. The downside is that the companies that do not develop often fail in their businesses and the business owner also loses out on all the good aspects of growing for example through franchising (Keup 2007, 65).

2.3 Growth with bigger goals

After the company has grown from the inside and desires to grow even larger, the company may reach for international markets and seek expansion prospects with other companies. *External growth strategies* are based on developing a relationship with third parties, this can be done for example through mergers, acquisitions, strategic alliances, joint ventures, licensing, and franchising (Barringer, et al. 2010, 489).

Association alternative consists of dealerships, licenses, incentive programs, partnerships and joint ventures. These are often results in negotiations and cooperation of two parties that have same interests and become to agreement through compromises on how to settle things. Downsides are the compromises, of which in the case of franchising the franchisors are safe, they do not have to be so flexible since they are the one's setting down the rules and franchisees simply sign the papers. Some partnerships and sister corporations may easily seem like franchising which can cause problems with law at least in the US (Keup 2007, 66-67). One successful company that has only a few franchised outlets out of the thousands of stores around the world is Starbucks

Coffee Company. They have made agreements with companies such as United Airlines, Nordstrom, Barnes & Noble and Wells Fargo Bank. They also operate side by side with Chapters and Costco (Evancarmichael.com; Starbucks Coffee Company).

Merges and acquisitions are both ways to grow for entrepreneurial companies. The first one is more like melting two or more companies that have similar interests together. In an acquisition one company that wants to benefit from another outrightly purchases the other. The latter is more commonly used among entrepreneurial companies. The company implementing acquisitions can accomplish a number of the company's goals for instance expanding its product lines, gaining access to distribution channels, achieving economies of scale, and/or spread out the company's geographic area. Acquisitions can also be used to buy out the competitors like when Google acquired YouTube in 2006 (Barringer, et al. 2010, 491).

Franchising is a way to grow business operations as are the former presented strategies. It offers a little bit different approach to business ownership, but can not create immediate miracles. Franchising allows a business to get its products or services to wider markets through the endeavours with the business partners (Murphy 2006, 11; Barringer, et al. 2010, 514). This subject will be discussed in detailed in the following section.

3 FRANCHISING AS A GROWTH STRATEGY

Franchising has been conquering the world during the past few decades without the masses really knowing of its existence. It is a poorly comprehended type of business ownership and method to grow existing business. Today it is studied by business students and also entrepreneurs are aware of the term. In order to completely understand what franchising is all about one really has to closely study the concept and/or throw oneself in and experience it first handed (Barringer, et al. 2010, 512). The beauty of franchising is in the win-win situation that both parties have in the business; franchisor (owner) who seeks to grow the existing business with little financial input and franchisees who are ready to spend the money in order to do a business without having to start from scratch (Bennett, et al. 2008, 11-12).

3.1 History

The way franchising works is nothing new to our civilisation. The earliest rights to do business in other parties names dates back to the Middle Ages (476 A.D. – 1453 A.D.) when the feudal lord gave rights to the crafts men and other professions to do business such as operate ferries or hold markets. A more recent and recorded early form of franchising took place in Germany. In 1845 brewers and tavern owners started conducting business relations in a way of exclusive distribution rights of beer (Bennett, et al. 2008, 10).

After beer came sewing machines. The first commercial franchise came from Isaac Singer after he developed his first sewing machine in 1858. There were two problems to be solved before Singer Sewing Center could exist. Mr. Singer lacked the capital for mass production and the customers did not know how to use the machines. He grasped the idea of selling the rights to other business men to sell the machines and also train the new users. When he got money from the licensing fees he could finance the manufacturing and he did not have to figure out the cost or time of hiring. In this way the business expanded rapidly and is still well known in many parts of the world (Dugan 1998, 7).

The next big step in franchising came because of a need for a huge distribution network. As Henry Ford started mass producing his cars in the assembly line in a pace one had never seen before everything had to adapt to the new culture. There were cars accessible for the masses; cars need gasoline, parts and services. Now people could live in a larger area, drive to other towns, they needed accommodation, places to eat and so on. In the early 1940's a lot of business started blooming; automobile dealers, travel lodges, oil companies made deals with convenience stores etc. This started the expansion of franchising the way we know it today (Dugan 1998, 8).

The early franchisees in the 1940's did not look alike, they had characteristics of their own and the franchise agreements were about 3 pages long, nothing too strict or complicated. About 10 years later Ray Kroc introduced the cloning method to franchising. He is also the founder of the world's most well known business and franchise. It all started with milkshake mixing machines and 15-cent hamburgers in San Bernardino.

Back then it was called MacDonal'd's, somewhere along the way they dropped the a from the Mac. Mr. Kroc brought the assembly line method to food industry and created the concept of fast-food. He believed that controlling every single aspect of the business, from how to run it to the decor of the store and everything in between will make the business successful when expanding it to new locations. He was right. The idea is to make sure the customers gets the same thing every time they walk into a McDonald's. After the finding of cloned franchising business some have tried to franchise without cloning the business and mostly failed. In the 1960s already existing franchise businesses started adapting to the cloning method by wearing same uniform and standardising their businesses. Today the franchise agreements are a lot longer than 3 pages (Dugan 1998, 9-10).

From the mid 1900's franchising has come a long way. The International Franchising Association (IFA) was founded in 1960, today there are more than 75 industries operating in the franchising format. Several countries have their own local franchising associations and even outside of the official associations there are individual franchisors operating franchised businesses. All in all there are thousands and thousands of franchisors and franchisees around the world. Franchising is the easiest way to spread the business around the world, just like McDonald's and their golden arches have proven (International Franchising Association).

3.2 The key concepts

In order to be able to discuss more deeply about the franchising concept it is good to start with the basic terminology. First there is the introduction of the word franchise and the origin of it, then different definitions for the concept of franchising from different points of view and finally presented are the two parties in a franchise agreement; franchisor and franchisee.

Franchise is actually a loanword from the French language and it translates to freedom, privilege, and exemption (Barringer, et al. 2010, 513). Franchise, spelled as in French, is also a word in English, Finnish, Hungarian and German and has similar spelling styles in other world languages (sanakirja.org).

The term *Franchising* can be opened up in several ways. Bennett, et al. (2008, 9) quoting Cheryl Babcock, director of the International Institute for Franchise Education as Nova Southeastern University in Fort Lauderdale gives quite comprehensive definition and also notes the existence of the two parties in the operation. Tuunanen (2005, 19) takes more technical point of view in his version whereas Keup (2007, 55) sums the term in a practical way. The different ways to describe the term franchising are in the table 1.

Table 1. Franchising definitions from different perspectives

Babcock	<ul style="list-style-type: none"> • “Franchising is a business strategy, a way of doing business, and a method of distribution of goods and services designed to satisfy customer needs.” • “Franchising entails a strategic alliance between two different entities, the franchisor and the franchisee.”
Tuunanen	<ul style="list-style-type: none"> • “Franchising is established through a franchise contract, where the contracting parties agree on governance and use of right (cf. property rights). The term franchise refers thus to the right, but also to the contract and the franchise organization.”
Keup	<ul style="list-style-type: none"> • “Franchising is a method of marketing and therefore entails a business operations in and of itself.”

Franchisor is usually the creator of the business concept, the one that has developed and launched the operations (Tuunanen 2005, 19). Once successful in the business, the business owner lends rights to do business under the same name to another business owner using the original method and/or trademark for a predetermined period of time set in a contract (Barringer, et al. 2010, 513).

Franchisee is the receiver of the right to conduct business invented by the franchisor. Franchisee can also be called a franchise owner (Tuunanen 2005, 19). Bennett, et al. (2008, 9) quotes Babcock summarising the roles of the two parties:

“Franchisee pays the franchisor a royalty fee and, often, an initial fee, for the right to utilize the franchisor’s brand name, operating system, and ongoing support, and agrees to conform to quality standards.”

3.3 Different types of franchising

There are different ways of implementing franchising type business. The main separation is between *product and trade name franchising* and *business format franchising*. In Europe only business format franchising is regarded as franchising and the former is not included in the statistics. In the US both are equally seen as franchising and since there would not be the latter without the former here are explanations for both. *Product and trade name franchising* is franchising as it was in the early days. The franchisor has a product that is distributed to the end-users by the franchisees. Singer had sewing machines and GM had cars, this has not changed; newer product and trade name franchisors are Coca Cola Company and British Petroleum (BP). Coca Cola Company gives the right to bottle the cola drink in various countries around the world and sell the drink as Coca Cola. Coca Cola Company does not give rules on how the company should be run etc. This is a good example of how the franchisor (Coca Cola Company) gives the licensed Coca Cola trade name and logo to the use of the franchisee (the bottling factories that also distribute the drink to the retailers) and the franchisees (factories) run their business the way they please and sell the product to whom they please. The factories buy the concentrate/syrup from the Coca Cola Company, add filtered water, bottle it and sell it to the retailers who then sell it to the end-users. The Coca Cola Company gets their income from selling the concentrate/syrup to the factories and the factories get their income from selling the drink to the retailers. (Coca Cola Bottling Franchise; Tuunanen 2005, 18, 141; Barringer, et al. 2010, 514; Bennett, et al. 2008, 9)

In *business format franchising* the idea is taken a step further from product and trade name franchising. This time all aspects of the business are determined by the franchisor. As mentioned earlier, McDonalds was the first company to start business format

franchising and is a perfect example of this type of franchising. The franchisor provides the entire formula of the business to the franchisee; this comes with a specific plan on how to conduct business, training on how to operate the business, support along the way, and depending on the business even the words that are used in the customer service might be supplied by the franchisor, so basically everything is covered. Also marketing is done by the franchisor, sometimes the franchisee can market the local business as well but mainly the marketing is nation wide and conducted by the franchisor. In return of a complete (and successful) business model the franchisee pays royalties and franchising fees for the franchisor. Even though this type of franchising might be demanding and inflexible for the franchisee it is more commonly used among the entrepreneurs than the former (Tuunanen 2005, 18; Barringer, et al. 2010, 514-515; Bennett, et al. 2008, 9-10).

Tuunanen (2005, 68) has listed criteria to check in order to find out if the operations fulfil the qualifications for business format franchising. Criteria 2 to 7 deal with the legal criteria. Criteria 1 and from 8 to 12 cover the theoretical/practical side. In order to pass as a franchise in the screening the minimum requisites to fulfil are 1 to 4, and 5 or 6, and 7.

1. There are outlets operated by the franchisee(s) – i.e. not totally company owned channel of distribution.
2. A written (standard) franchise contract exists between the parties.
3. The franchisee pays an initial franchise fee and/or s/he pays royalty on continuing basis to the franchisor.
4. The franchisees operate under the same brand/trade name and their outlets have a uniform outfit.
5. The franchisor provides relevant and classified know-how by training and/or other significant assistance to the franchisees.
6. The franchisor offers an operational manual(s) to guide franchisees' business operations.
7. The franchisor supplies technical and/or commercial support (i.e. ongoing services) to the franchisees.
8. The franchisor does not own (substantial) share of the franchisees' companies.

9. The franchisor acknowledges franchising as its operational form and/or searches for new franchisees.
10. An exclusive right for a territory may be granted to a franchisee in the franchise contract.
11. The franchisor controls and monitors franchisees' business operations on a continuing basis.
12. The franchisee may not sell, lend, transfer or grant the franchise or any related rights to a third party without franchisor's approval.

3.4 Different types of franchising arrangements

In franchising like in any kind of business, there are different ways to conduct the co-operation between the parties. Here the three main contract types between the franchisor and franchisee are introduced; individual franchise agreement, area franchise agreement and master franchise agreement.

Individual franchise agreement is the most widespread type of contract between franchisor and franchisee. In this simple cooperation a franchisor sells a single franchise to a franchisee for one specific location (Barringer, et al. 2010, 515).

Area franchise agreement covers more than one location in one address. This is a popular type of franchising agreement because it gives exclusive rights (no competitors from other franchisees of the same franchise) for the area and it gives challenge for the franchisee by increasing the responsibilities etc. With this kind of agreement the franchisor sells the franchisee rights to own and operate predetermined number of units in a specific territory (Barringer, et al. 2010, 515; Bennett, et al. 2008, 282).

Master franchise agreement also known as *subfranchising* can work in two different ways. In a nutshell the franchisor sells the franchisee the right to become a franchisor in a specific geographic area in exchange for royalty payments or a portion of the franchise fees collected from these additional franchisees. One way of implementing this is that the franchisee must operate at least one unit themselves and at the same time act as franchisors for the others in the area. The other way of executing this is that the franchisee becomes a franchisor and only takes care of the franchisor's job in the area.

This type of arrangement is usually used when expanding to other countries after the original franchisor has successfully expanded the business through franchising in smaller area. Another functioning way of utilizing this concept is for example real estate business, where the people doing the business are professionals in doing it already and only need to change into a different coat to sell real estate under a bigger name (Murphy 2006, 164; Barringer, et al. 2010, 515; Bennett, et al. 2008, 283; Keup 2007, 90).

Multiple-unit franchisee is a term used for an individual who owns and/or operates multiple units of the same franchise, whether through an area or a master franchise agreement. Both of these two multiple-unit franchising techniques have their shortcomings to the original franchisor who may lose control of the sales process and will have his/her hands bounded in terms of expansion in that area for the time set in the franchising contract. On the other hand, there is reduced total number of franchisees to manage, also less training and other tasks concerning starting up a new franchise when every new unit will not need the guidance from the original franchisor (Murphy 2006, 165; Barringer, et al. 2010, 515; Bennett, et al. 2008, 283).

Barringer, et al. (2010, 516) has visualized the different agreement types with organization charts. First is the *individual franchise agreement*, in figure 1, which involves the sale of a single franchise for a specific location. Here are only two parties and they are directly connected with each other.

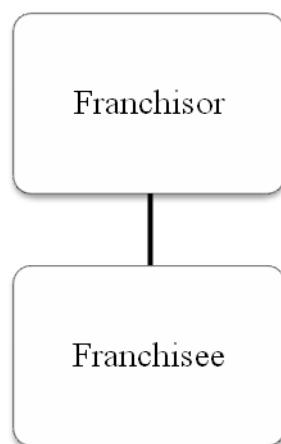


Figure 1. Individual franchise agreement (Barringer, et al. 2010, 516)

The second type is *area franchise agreement* (figure 2) which allows a franchisee to own and operate a specific number of franchisees in a particular geographic area. In this chart all the 3 franchisees are operated by the same franchisee individual in the specific area under the same contract.

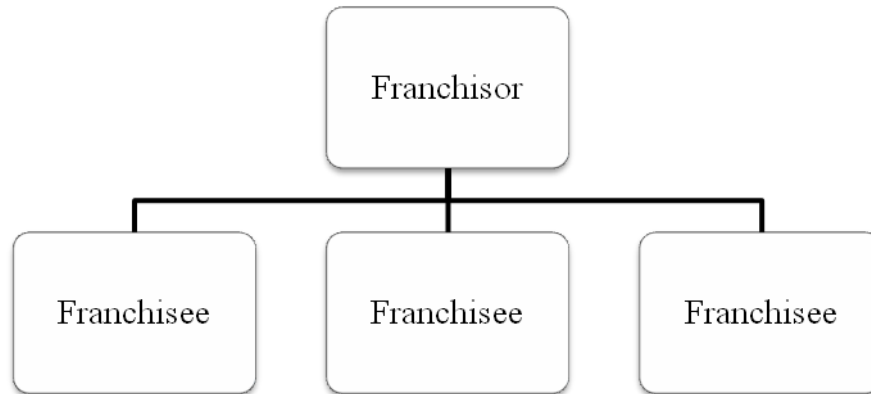


Figure 2. Area franchise agreement (Barringer, et al. 2010, 516)

Thirdly there is the *master franchise agreement* (figure 3) in which a franchisee owns and operates a specific number of franchisees in a particular geographic area AND provides the franchisee the right to sell to other new franchisees (=subfranchisees), who find and manage their own franchisees.

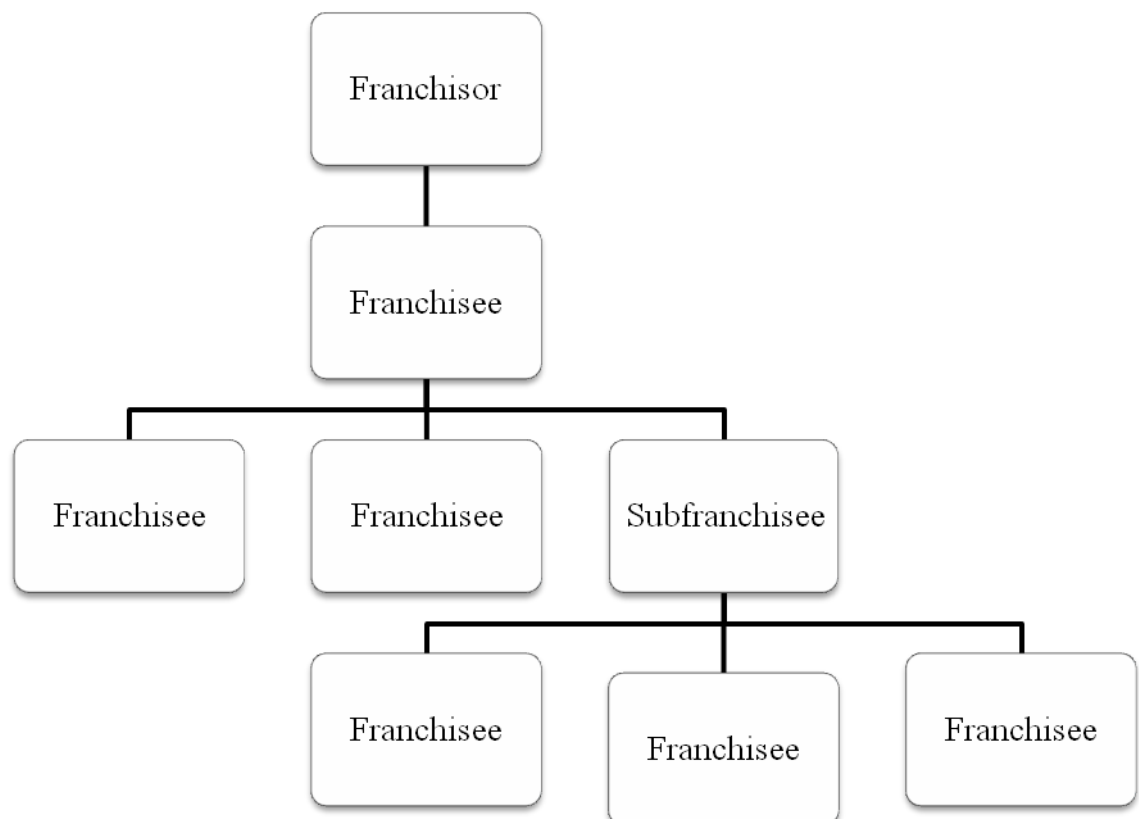


Figure 3. Master franchise agreement (Barringer, et al. 2010, 516)

3.5 Advantages and disadvantages

For every type of business and organization there are advantages and disadvantages, the same goes with franchising. In franchising there are two parties in the contract which means that there are good and bad sides from both view points; franchisors and franchisees. Here the main concern is the franchisor and there for the advantages and disadvantages are presented from the franchisors point of view (Murray 2004, 16; Murphy 2006, 183).

Franchising expands the business much faster than growing through company owned units, this is because there is a greater amount of money and individuals involved in franchising operations than if company should invest own resources in growing the operations. On the other hand there might be a loss of control over the network if it grows so big that the franchisor can not handle everything anymore. The franchisor might also create an illusion where he/she would not have to take that much interest in the daily operations of the business because of the franchisees are doing all of that kind of work (Francoise 1997, 14-15; Murray 2004, 19-21; Keup 2007, 56-58; Murphy 2006, 185-193; Barringer, et al. 2010, 522). Figure 4 shows the good and bad sides of the expansion aspect.

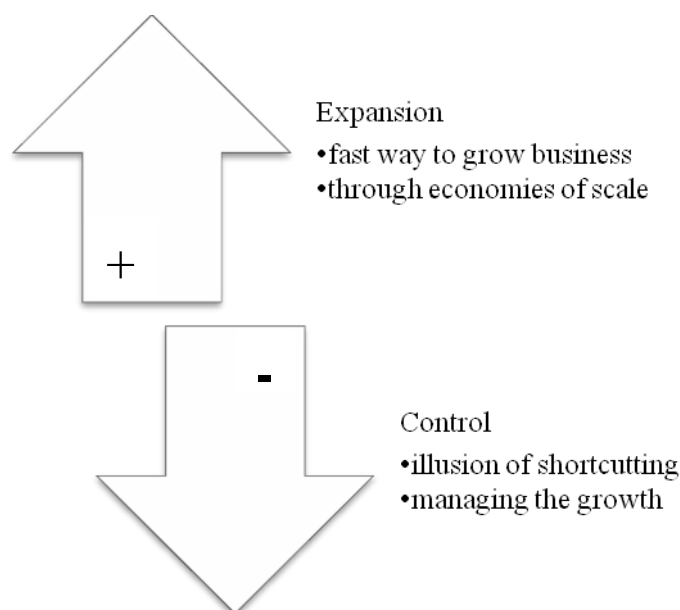


Figure 4. Advantages and disadvantages from growth perspective

Franchising can also be seen as a method to raise capital, where franchisor does not invest own money in the same quantity as opening company owned branches, because every franchisee brings their capital to start their part of the business. This also guarantees a set income from the fees and royalties for the franchisor. The greater amount of business units getting their supplies from a same source also cuts down the costs in the same way as handling the financials through the same channels etc. Not to mention the efficiency of marketing that affects every business operating under the same name; one town/nationwide advertisement that works for all the stores and saves in costs, time and work effort in marketing. All in all the financial risks are rather small. The downsides are that the profits that do come are not all for the franchisor, but the franchisees get their portion of the profits as well, which makes the profits smaller for the franchisor than if the business would only have company owned units. There are also costs of operating franchised business such as legal expenses and training etc, so before getting any profits, the franchisor is required to invest on these aspects. Similar to other kind of business operations, in franchising, it takes time to start making a profit, as most of the franchises take at least half a year to break even (Francoise 1997, 14-15; Murray 2004, 19-21; Keup 2007, 56-58; Murphy 2006, 185-193; Barringer, et al. 2010, 522). In figure 5 there are the financial aspects gathered from both positives and negatives.

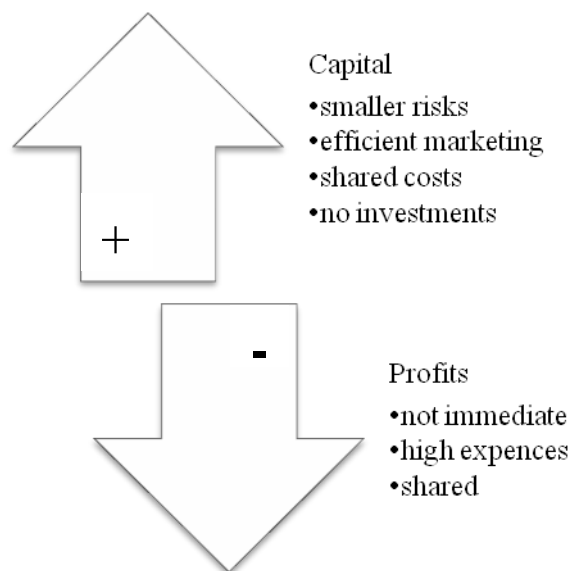


Figure 5. Advantages and disadvantages from financial perspective

When growing business to new geographic areas through franchising the franchisees from new locations bring local knowledge from the local markets, this show franchi-

sees importance especially when entering to new countries. Another good aspect of the relationship between franchisor and franchisee are the research and development facilities that come in in form of reports from the franchisees. When the franchisees deal with hiring and other direct managing responsibilities of the business it gives more time for the franchisor to concentrate on the big picture of running the company. People usually also mean problems; in franchising the franchisor and franchisee look at issues from different points of view and might have different goals in operating their part of the business. The franchisor needs to keep in mind that franchisees are not their employees but independent operators with a franchising contract. The relationship is a leap of faith in a way; franchisor needs to be able to trust to the franchisee and give up part of the business operations to a stranger. Just like in any relationships there will be disagreements on various issues, especially when things do not work the way one expects them to, these are problems that just need to be faced and solved as they come. Lastly, if disputes that cannot be agreed upon when they arise, the franchisee might leave and use the experience in opening own business and become a competitor with knowledge of your business (Francoise 1997, 14-15; Murray 2004, 19-21; Keup 2007, 56-58; Murphy 2006, 185-193; Barringer, et al. 2010, 522). Figure 5 sums up the dilemmas and the benefits of the relationship between franchisor and franchisee.

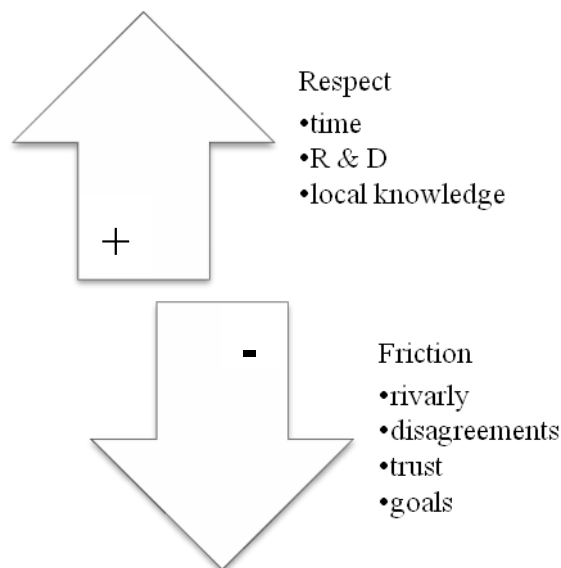


Figure 6. Advantages and disadvantages from relationship perspective

In any relationship both parties come to it with their own history and experience of life. In franchising a good aspect is that every franchisee has knowhow and ideas on management, marketing, fresh motivation etc. But the differences that they bring can

be the cause of friction when everyone thinks they know the best (Murray 2004, 19-21; Keup 2007, 56-58; Barringer, et al. 2010, 522). In figure 7 are shown the both sides of the background that the franchisees bring to the business with them.

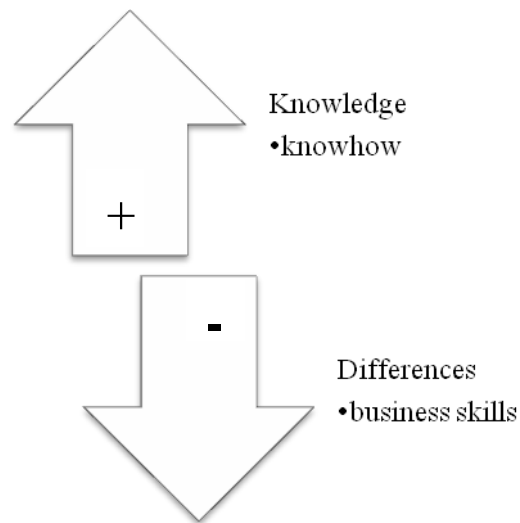


Figure 7. Advantages and disadvantages from experience perspective

In business there are always risks involved, that is what business is about, taking risks. In franchising a lot of negatives originate from the relationship between the franchisor and the franchisee. If the relationship works the business will work more smoothly as well. Franchising really is like marriage; it all comes down to selecting the right “partner” to grow together. When there is trust and agreement between the parties life is much easier and everyone is heading to the same direction. In franchising, no matter how perfect the concept is, if you argue with the franchisee constantly it will be unsuccessful in implementation (Murray 2004, 21). An important matter to remember is that if it is not broken, do not fix it. If you are not ready to expand, and yet you try, you might end up ruining a good thing, so be prepared. (Murphy 2006, 183)

3.6 Reasons for starting franchising

Tuunanen in his research conducted in 1999 looked for reasons why entrepreneurs in Finland have started franchise operations. The questions were open questions so Tuunanen has arranged 13 different groups from the results, and they are as follows:

1. Rapid growth, Geographical spreading, Market coverage (14%)
2. Solution to the principal-agent problem (12%)

3. “Copycat Strategy” – method copied from abroad or competitors (7%)
4. Economies of Scale, Benefits from Co-operation (7%)
5. Control and organizational issues (7%)
6. Cost management and efficiency (6%)
7. Do not know/decline to answer (6%)
8. Access to financial capital (5%)
9. Access to human capital, Local market knowledge (5%)
10. Pilot operations and R & D (3%)
11. “Go with a flow”, no specific reason (3%)
12. Risk sharing (2%)
13. Miscellaneous reasons (1%)

(Tuunanen 2005, 70)

A company’s growth is followed by two factors. Firstly, their product or service is successful and becomes well known. Secondly, when the company has been making profit and has the financial capability to expand. The companies should consider franchising as an option to grow when they have something that others do not in terms of trademark and a strong, well designed business model. The willingness to grow ought not to be underestimated either. One important aspect of the business is that it should be able to be standardized; this is the core idea in franchising, no matter where you walk into a store under certain name you expect to receive the same product, service, atmosphere etc. (Barringer, et al. 2010, 518; Murray 2004, 13).

Franchising suits best for young companies that might lack the financial capital where the franchising fees and royalties will bring in some of the needed funds. It is also important to keep in mind that franchisees are looking for a proven product at least to some extent, so when beginning franchising the business should have been well tested and the company should have experience of outlets that are company owned and successful (Barringer, et al. 2010, 518, 523).

Not always is franchising the way to grow. Franchises that are sold need to be affordable for the franchisees and the concept needs to be able to be written open in the contract. In huge chains that have large units such as Wal-Mart (comparable to Prisma in Finland) it is not possible to keep the opening costs in reasonable limits for an entre-

preneur nor is it achievable to write down all the policies and procedures there are to run such a business. For this kind of cases franchising rules out of options (Barringer, et al. 2010, 518).

An important aspect of deciding on starting a franchise is whether the entrepreneur is a business person fit to be a franchisor. It is different to run a business from running a franchise; franchisor is a business person as well as an educator, trainer, psychologist, perpetual hand-holder and looking after what/how things are done. A franchisor needs to remember that he/she is not looking for employees but independent business people who will be part of the franchising chain as individuals operating the business according to the instructions given by the franchisor (Keup 2007, 59).

3.7 Women and franchising

IFA, The International Franchise Association was founded in 1960, it is a US based organization and it is a membership organization for all the parties of franchising; franchisors, franchisees and suppliers. In 1996 they formed a WCF, Women's Franchise Committee to inspire and courage in franchising (International Franchise Association). Nowadays women in franchising are so common that they are not considered as a minority. As a matter of fact women are establishing new business operations twice as fast as men. Before there were more obstacles for women to be part of business life such as getting finance and recognition (Bennett, et al. 2008, 272-277). These reasons are still behind the willpower for women to want to be their own bosses by starting businesses. The attraction to franchising for women is that even though they are running a business on their own they are not alone but have diverse support network behind them (especially as a franchisee). Women are also better fit for the role of franchisee due to the general nature of female being able to listen, follow detailed patterns to work and implement business and accept that franchisor has the experience and knows what is talking about. In addition franchising offers flexibility for mothers with a family to run (Murray 2004, 111-112; Tuunanen 2005, 106).

Moya Hammond, a managing director of a British wedding bouquet franchise says: "Women have the skills to manage and grow a small business, but some lack the confidence to try... Women do not always recognise their capabilities – particularly if they

have taken a career break lasting several years. For such people franchising is ideal. It can provide the support necessary to enable the individual to develop her skills within a safe environment.” (Murray 2004, 113).

3.8 Franchising in Finland

Compared to the history of franchising in US and Europe, Finland is a beginner in franchising with the first franchising concepts from 1970s (Tuunanen 2005, part II/I 47). In his doctoral thesis Tuunanen, discusses closely the franchising scene in Finland. According to the statistics from 2003 there were 177 operating franchise systems with a total of 6 608 outlets in Finland, from the fields of retail, service and restaurant. Retail being the biggest individual segment with 76 chains, service following not much behind with 71 chains. The total number of franchise systems in Finland has grown from 30 chains in 1999 to 177 in 2003. When looking at the increment of the franchise outlets by business categories from 2002 to 2003 retail grew the most by 15,2 per cent (871 outlets). The Finnish franchising association was founded in 1988, so this was just a small example of how fast franchising has been growing in Finland. Tuunanen also explains how the numbers are only directional because during the years from 1999 to 2003, 10 franchise systems had been ceased, only one due to bankruptcy. This also tells how “safe” franchising is; even if the franchising system would end, the business often still continues. In addition, sometimes the franchise systems might emerge what happened with the example of the 10 franchise systems mentioned (Tuunanen 2005, 71-75).

Tuunanen compares the amount of domestic franchises and foreign franchises in Finland. In 2003 out of 177 franchise systems 133 (75, 1 %) were Finnish origin and 44 (24,9 %) foreign. Tuunanen states that in Europe Finland has an average amount of foreign franchises in the country compared with the local franchise system and that most of our 44 foreign franchise systems come from Scandinavia and Western Europe with only few from North America. These along with the Baltic countries and Russia were also the countries where Finnish franchises have spread. 21 per cent, one fifth, of Finnish franchise systems had expanded abroad by 2003. This is a large number even in an international contrast (Tuunanen 2005, 74-75).

3.9 Female entrepreneurship in Finland

Since there is little to no statistics of female franchising in general, and even less of female franchising in Finland. And since franchisees in Finland are part of the general entrepreneurial statistics, here are some data of Female entrepreneurs in Finland. By female entrepreneurship in Finland is simply meant a company that is established by woman/women, or where woman/women have over 50 per cent ownership and/or where woman is a head of the company (MTI Publications 11/2005 Women Entrepreneurship – Present Situation and Proposals for Measures).

There are only few statistics about female entrepreneurship and they are from different sources, composed in different styles. This makes it very challenging to compare different existing statistics (MTI Publications 11/2005 Women Entrepreneurship – Present Situation and Proposals for Measures). But to show some figures; in Finland in 2003 out of all the entrepreneurs 33 per cent were women. In comparison with other countries in Europe in the EuroStat statistics, Finland was in first place in the amount of female entrepreneurs in 2003(non including agriculture). With agriculture included Finland was in second place after Portugal (Entrepreneurship Survey 2004, MTI Publications 18/2004). Out of all the chief executive officers about 16 per cent are female and nearly half of franchising entrepreneurs female (Uranus.fi; MTI Publications 11/2005 Women Entrepreneurship – Present Situation and Proposals for Measures). The former Finnish ministry of trade and industry undertook a research whereby the companies owned by women in Finland are typically small and financially sound as well as having the foundation and base of their company base on professionalism (MTI Publications 11/2005 Women Entrepreneurship – Present Situation and Proposals for Measures).

In 2010 a released report of female entrepreneurship by ministry of employment and economy were researched different aspects of entrepreneurship which one of them being strategies and leadership. According to the report a little over half of female entrepreneurs set tangible goals to the company and the time span of the goals was often short, in half of the cases only about a year. Nine out of ten companies were focused on domestic markets. The competitive strategy was invariably the quality of the products and services, nearly as important was the knowhow of the staff (including the

entrepreneur). Nearly a third was planning on expanding the operations in the current company; about every tenth company was looking at closure of the business, suspension of the business or selling of the business (MEE Publications. Employment and entrepreneurship 33/2010. - Business practices and profitability of women owner enterprises).

The same research report discloses that over the past three years most of the female entrepreneurs had offered new or improved products and/or services, often the ideas came from the customers. The development was usually done by the company and the investments had been put into machinery, as well as into marketing and the training of staff were put effort into. The mentioned problems with development were the overall economical situation, too small market segments, the high price of development and lack of proficient staff (MEE Publications. Employment and entrepreneurship 33/2010. - Business practices and profitability of women owner enterprises).

Also the development of business operations was under the female entrepreneurship research. The factors of success were seen as quality and versatility, expertise and knowhow, customer satisfaction and established customer relations as well as good service, flexibility and trust. The needs that were mentioned were especially in information technology, accounting, marketing and planning of the business operations. The development of business operations was often associated with productisation of services, new ideas and marketing. The strategies mentioned were cooperation with subcontractor, the development of the organizations operations and expanding the operations (MEE Publications. Employment and entrepreneurship 33/2010. - Business practices and profitability of women owner enterprises).

3.10 The current state of franchising

Lastly here are some future prospects of franchising scene internationally and in Finland. Franchising has been growing constantly since the mid 20th century and there is no change to be seen at the moment. Newly graduated business students are drawn to the industries that are governed by franchised businesses. There are new tools to conduct business which are favourable for franchising, in addition franchising affects also other businesses in the economy. Everything seems to be on behalf of franchising

and the regulators with franchise associations are to be boosting the prospects for franchising (Barringer, et al. 2010, 539).

Internationally franchising is growing all over the world; this is the biggest trend in franchising in general at the moment. The reason for global franchising success is globalization and the effects of it. People want recognition by indentifying themselves with world famous brands as symbols for quality and success. Franchising has also taught consumers to demand consistent service quality and value (International Franchising Association).

Tuunanen in his research has studied franchising and particularly franchising in Finland very closely from 1996 to 2004 and in his thesis 2005 sums up what the future of franchising could encase:

- Franchising will become more common and important for the economy
- There will be more variety in the new franchise systems such as technology and knowledge
- Franchise systems will work together more and multiple unit franchise agreements will become more common
- Awareness, reputation, franchise know-how and interest towards franchising will grow
- Businesses will start franchise operations younger as part of their strategy to grow
- Not only the quantity but also the quality of franchise systems will increase, there will be more consulting, training, research etc.

(Tuunanen 2005, 103-104)

4 RESEARCH PROCESS

Research is a process that people start when they need to find out about a certain issue in a systematic way and in this way increase their knowledge of the issue. The collection of data alone does not compose a research; it has to be collected systematically and with a clear purpose. Also an assembly of data from different sources in one document with bibliography is not enough to make it a research; this is a part of the re-

search that is concluded with interpretation of what the data tells (Saunders, et al. 2009, 320).

4.1 Research methods

The main separation of different kinds of research is the division between quantitative and qualitative methods. With quantitative research methods the research generates and/or uses numerical data in the process and with qualitative research methods the research generates and/or uses non-numerical data in the process (Saunders, et al. 2009, 151). For this research process the natural choice was qualitative methods since the research question concerned the requirements for franchise operations. Requirements are best disclosed by using non-numerical data.

A starting point in qualitative research is a description of realistic life. This includes a thought that life is diversified. In a research one must take into consideration that reality can not be dismembered arbitrarily into pieces. Occurrences shape each other simultaneously and it is possible to find numerous connections. A qualitative research aims to study the subject as comprehensive as possible. In a qualitative research the goal is to find out or reveal facts rather than verify already existing facts or claims (Hirsjärvi et al. 2009, 161).

An interview is a unique way to collect information due to the direct linguistic interaction with the source of information. The biggest advantage is the flexibility that it brings to the data collection. In qualitative researches an interview is usually a main method of data collection. The reliability of interview undermines the fact that interviewees tend to give socially acceptable answers (Hirsjärvi et al. 2009, 204-206).

Interview is one type of conversation. In a normal conversation the parties are (or think that they are) in equal position in asking questions and giving answers. Interviews for research purposes are to be understood as systematical form of data collection. This type of interview has goals and it aims to gain as reliable and valid information as possible (Hirsjärvi et al. 2009, 207-208). Interview can also be an easier way to receive data from managers. It has been argued that managers are more willing to take part of a research when they are interviewed than to complete questionnaires. An in-

interview offers them an opportunity to go through the topics without having to write anything down (Saunders, et al. 2009, 324).

There are different ways to implement interviews. Main separation is structured; using standardizes questions in highly formalised way, unstructured; informal more like conversations, and semi-structured from between the two previous ones. (Hirsjärvi et al. 2009, 208-209; Saunders, et al. 2009, 320-321). In this research the most suitable and therefore the used interview style is a semi-structured interview. The reasons for this come clear next. It is typical for a semi-structured interview that the themes of the interview are set beforehand but the exact questions and order of questions is not known. Also the themes and questions can vary from interview to interview and do not have to be repeated (Hirsjärvi et al. 2009, 208; Saunders, et al. 2009, 320). In this research the interviewees got to see the questions (see appendices 1-2) beforehand, some of the questions were skipped along the way, but the main idea with the themes were dealt with in both cases. The themes were different in each interview due to the different aspect that was being looked for from the different interviewees.

An interview can be implemented as individual interview, couple interview or group interview. Individual interview is used most often, there present are the interviewer and the interviewee. A couple interview is a sub-form of a group interview. Grönfors (1982, 109) has stated that interviewees are a lot more emancipated and liberated when there are more people present (Hirsjärvi et al. 2009, 210). In this research one of the interviews implemented was a couple interview and one was an individual interview. The couple interview because there were two owners of the company and it was natural to interview both of them at the same time. The individual interview because there was only one executive director/representative to interview from Finnish Franchise Association.

Sometimes it may not be possible to have a face-to-face interview. In order to disregard issues with time, distance and costs it may be more efficient to conduct interviews by telephone. When the parties are not physically in the same space it may be more difficult to establish trust and therefore the reliability may become an issue if the participants are not as engaged to the interview as in face-to-face situation or might not want to participate at all. In addition when talking on the phone the interviewer can not witness the non-verbal behavior of the interviewee. Furthermore the time used

in the interview may be shorter than in face-to-face interview and the questions might become less complex (Saunders, et al. 2009, 349). In this research one interview was implemented as a phone interview due to issues with time and distance.

4.2 Data collection and analysis

In this research there were three interviews planned. In the end only two actualised. Both of the interviews were implemented in Finnish since all the participants speak Finnish as their first language. The interview of Ulla and Riikka Pitkänen, the owners of Aku & Ada took place in Leppävirta, in the store on October 25th 2010. As the main research problem is to find out if franchising is possible for the company's future it is only expected to have the owner's interview as the base. The second interview was implemented as a phone interview on October 27th 2010; the interviewee was Juha Vastamäki, the executive manager of Finnish Franchising Association's. Finnish Franchising Association being the official operator for franchising in Finland is a natural continuance to find out more about franchising and the operations in Finland. Both interviews would probably have been face-to-face interviews if timing would have worked out more smoothly. With the second interview, scheduling was a problem, thus a phone interview was carried out in order to overcome the timing issue. Unfortunately the third point of view of a company that has succeeded in implementation of franchising their business operations was left out due to the reluctance of the interviewee. The two interviews that did take place went smoothly. All the interviewees talked a lot and did not need to be pushed to answer. They even gave some of their own comments outside of the actual questions. The fact that all three interviewees have their hands full of work all the time did not show in their attitudes at all, everyone gave full answers and provided me with a lot of data to work with.

As a result of these two interviews there are about eight pages of material which will be analyzed comparing the data to the theory. The material is divided according to the themes in the interview questions (see appendices 1-2). The interviews are not comparable with each other due to the difference in the nature of the interview, first one being more to find out of the company's situation and the second focusing more to the format of the business strategy. Both interviews are based on the theory and consequently all the three (theory and two interviews) are linked to each other.

5 FINDINGS OF THE INTERVIEWS

Here is the data from the two interviews; first the interview of the owners of Aku & Ada and second the executive manager of Finnish Franchising Association's. All the questions were divided under different themes. Here the questions are opened under each theme on the same order as in the interview (see the questions from appendices 1-2).

5.1 Results concerning Aku & Ada

The responses of the first interview with Riikka Pitkänen, the chief executive officer of Aku & Ada and Ulla Pitkänen, the chairman of the board of Aku & Ada are as follows. The themes start with background of the entrepreneurs and the company, going through the present operation of the company, the possibly future growth of the company and finally their relation to franchising.

Background of the entrepreneurs

The chairman of the board (COB) has a vocational qualification in business and administration from a commercial institute. After the basic education she has been taking courses on her own time to deepen her knowledge on the field of textile business; purchasing, styles, marketing, colour training, stylist etc. She considers that the extra training has given her energy and enthusiasm to continue and move forward into new challenges. The chief executive officer (CEO) is a newly graduated bachelor of business administration specialised in entrepreneurship.

The COB has a long experience in the field. The first clothing store she worked in Leppävirta was called Katri asuste, the COB was involved with Katri asuste from 1982 to 1989. From 1989 to 2001 she started and ran her first own clothing store in Leppävirta, first edition of Aku & Ada. In 2001 she was involved with opening and setting up a larger clothing store in Kuopio called Nina and worked there until 2004 as the store manager. Between 2004 and 2005 the COB had a small internet enterprise called Up style; she worked as a stylist and went shopping with her customers and helped them to find their style and clothes. During this project she got to know the Vero Moda shop closely in Varkaus since she went there often with her customers.

She received a phone call from The Varkaus Vero Moda store and they asked her to host some customer nights which led to her becoming the store manager for the shop between years 2006 and 2009. During that period of time she arranged the whole store and started everything from the scratch there.

The CEO is a daughter of the COB so she has less experience in years, nevertheless impressive amount of experience of the industry behind her. She started as a teenager helping out her mother in the first edition of Aku & Ada and was also working in Nina in Kuopio where her mother was involved. After this she has been working in inter alia: Dinsko, Dress Man, Vero Moda, H & M, Sportland, Only. She has worked as a sales person, visualiser, responsible sales person and in Vero Moda she was responsible for the same tasks as a store manager.

The COB wanted to become an entrepreneur because she wanted to do things in her own way in order to make things work instead of just watching from the side. She wanted to do something that was her own, her character is strongly entrepreneurial and she does not stay working for someone else for a long period of time. The CEO has grown in very entrepreneurial atmosphere, having both of her parents being entrepreneurs. She is also excited to see what she is able to do on her own and finds it interesting to be able to make decisions herself and being in charge of things.

To sum this part; both the COB and the CEO have extensive experience of the field considering their ages. Both have business education and both have been working in some sort of managerial tasks. In addition both are also entrepreneurial as nature and have the attitude to run a company.

Background of the company

The idea of opening Aku & Ada by the CEO and COB has been alive for couple of years. Everything took concrete shape during summer/fall 2009 when the CEO was working on her thesis with a subject that did not interest her. In addition to that she was thinking about opening Aku & Ada with her mother again. After a conversation with her supervising teacher she decided to write a business plan as her thesis and from there onwards everything started to quickly unfold. Already in October 2009 they

had premises for the company in another location in Leppävirta but due to situations beyond their control they lost the premises and had a little set back in their enthusiasm as well. The COB kept on searching for a suitable place for store and found the present location which was not in a condition fit for opening a business and needed major renovations. These premises were also smaller than the original place and therefore they decreased the merchandise categories from the original plans of also having children's clothing, house decoration etc. in their selection. The renovations began on January 2010 and the final step was to furnish and stock the shelves for the grand opening on March 25th 2010.

This is the first Ltd for both parties of the company and they received assistance with the establishing of the company from entrepreneur center Wäläkky. Most of the finance was provided by Finnvera, a specialized financing company owned by the State of Finland, as entrepreneur loans and female entrepreneur loans. In addition they also took a small bank loan. At the moment Aku & Ada employs the CEO and the COB.

To make a long story short, the idea of the company had been alive for a while already. At the time of the CEOs graduation from university of applied sciences everything else just fell into the right places and as a result the mother and the daughter opened Aku & Ada again, this time together as an Ltd.

Operation of the company

After about half a year from opening the store it can be said that the company's operations has started off successfully. The first month when company was making profit was July. In September there was a little downturn in the profits due to the buy-ins. The owners agree that this would not be possible without strong experience from the field. The COB has brought a lot of knowledge that has been vital to the success, the profit margins have been set to correct level to bring incomes, the buy-ins were successful even though they were made late in the circulation of the industry. In addition Leppävirta had no other clothing store which means a huge demand for the company right from the beginning. The previous Aku & Ada was still in the memories of the locals and they waited for months for the opening of the new store. Customers come

from further away as well, some even from the big Kuopio city 50km away. Also the young CEO is a point of interest for the locals and she brings a fresh breeze to the town, she has learned a lot during this year and is still learning new things all the time. Both the CEO and the COB are seeking for their own place in the company. The COB can not do everything even if she would like to make sure and check that everything is correct. She needs to give space to the CEO and both need to focus on what it is that they do best.

The biggest challenges have been the buy-ins, also the marketing needs to be focused in a correct way and the CEO is learning what kind of clothing is saleable and match each customer with the correct products. The easiest things for the COB has been selling and serving the customer as well as buy-ins, for the CEO the painless things have been visual things, to draft the advertisements, using the computer and take care of the office work. The pleasant aspects of entrepreneurship have been the freedom of making own decisions and the flexibility to adapt for example if there is a quiet day the other one can have a day off etc. From the other point of view, the irritating issues include dealing with difficult customers, however, after being able to find clothes and make them happy also these customers bring feelings of success. The other issue mentioned was the unevenly distributed labor when the COB is handling all of the accounting and much of business at the store as well. The COB confessed that she is still in the excitement of the beginning and wants to be involved with everything.

A regular working day is from 9am to 6pm; in the morning they clean up the store and during the day they serve the customers and unload the deliveries. A couple times they have had customer nights outside of the regular opening hours of the store and on Sundays the COB keeps the accounting up to date. The unique thing for Aku & Ada is the easygoing atmosphere, taking customers as they are, serving them till the end and the strong and long experience of the COB.

As a summary of the operation of the company, so far everything has started off well and the roles and tasks of COB and CEO are still in progress. At the moment the COB wants to have a look at everything and keep everything under her control in some ways. The CEO is learning new things all the time and is making her part of the business with the skills she possesses.

The growth of the operations of the company

The original Aku & Ada had a branch store in Kuopio in the 1990's but it was not successful and did not last for long. The biggest issues are the restrictions set by the brands; in one city/town there can only be limited number of stores that can sell certain brand's products. This means that if all the brands Aku & Ada is selling in their present store would be in the supply of the possible new stores, the location of these stores should be in smaller towns that do not have stores already selling the same brands. As Aku & Ada is at the moment, it is not possible to transfer the store in Kuopio, which is the largest city close by.

The reasons behind the willingness to grow are firstly about the profit that it would bring. The second rationale is that when there is more than one store it would make it possible to divide the big buy-in deliveries between the stores and have more variations in products. The idea of franchising came about already in the process of the CEO's thesis which was the business plan for Aku & Ada; an already existing franchise chain that specializes in youth clothing had approached her and offered their chain and business opportunity which was turned down. Another growing strategy that has been thought over is a possible ecommerce store of Aku & Ada; this would then possibly require a third person to work for the company. Also importing some new brands to the Finnish markets would be inspiring option for the CEO and the COB to expand their business operations. No major expansions are of current interest. First they want to pay out their debts and then when the time is right and the company's stage is more stable, cautiously take a step at a time, and always know what lies ahead. Provided that Aku & Ada will open stores in new geographical locations it would be somewhere in eastern Finland, with the ecommerce store the possibilities for expansion are theoretically unlimited.

The biggest obstacle in growing the business is the restrictions by the brands in each geographical area. Therefore, if other stores are opened narrowing down the brands should probably be the first thing to do. Money and practicality are reasons mentioned for the desire to grow business operations. For now there is no need to start expanding. At first the business needs to grow strong as it is and become financially stable.

Franchising

The CEO and COB agree that their business concept should be modified in case franchising would become their strategy to grow. The brands should be defined and decreased and the segmentation should be more focused. Also more knowledge about franchise operations should be acquired, at the time of the interview the CEO or the COB knew only a little of the basics of franchising. When it comes to actually giving a part of the responsibility of the business operations to someone else, they should carefully select a skilled textile field's expert whom they can trust. The COB trusts to new people easily but once the trust has been broken, there will be no change for that.

5.2 Results concerning Finnish Franchising Association

Here are the responses from the interview with the Finnish Franchising Association's executive manager, Juha Vastamäki. The themes start from beginning of franchise operations, followed by franchising in Finland, women and franchising, advantages and disadvantages of franchising, Finnish franchising association and lastly the future of franchising.

To begin franchising operations

There are no official statistics on how long companies have been operating before starting with franchise operations. As an example the executive manager (EM) of the Finnish Franchising Association gave an approximate figure of five years after operating on its own and then choosing franchising as a growth strategy. The main concern is that the company should be able to prove that the business works and should be able to sell the idea to the franchisees. Everything starts from defining the profile of the company as well as defining what kind of entrepreneur the company is looking for. Only after all the basic things are dealt with can the focus turn to search process of the possible franchisees; they can be found via newspapers, internet, recruitment services etc. A rear situation would be if the franchisor and the franchisee knew each other from before; though that would only be an advantage but not many entrepreneurs have such a large network to choose from.

There are no set financial figures that the company should fulfill in order to start with franchising operations. Everything depends on the business plan and varies from case to case. The company does not have to be free from debt as long as the situation is under control and there is a plan. Franchising is not the only growth strategy. Sometimes company owned units can be a better option. A professional in franchising should analyze whether franchising suits for the company or not. Franchising is also a strategic question for the company including the finance and management of the chain etc. Franchising is also ruled out if the operations do not fulfill the model of business format franchising but is based on one specific product or is some sort of joint marketing cooperation. Another important aspect is that in franchising the franchisor provides the support for the franchisees, thus if the entrepreneur does not want to be supporting others but work in the front line, franchising might not be the best solution for the growth.

To summarise the requirement for getting into franchising the company should have a working and successful business model that is able to be copied. There should be a clear profile of the company and a business plan. The finance of the company should be controlled and planned ahead. Finally the owner should be ready to step into a role of franchisor and be able to support and manage the franchisees, the whole chain and the operations.

Franchising in Finland

Product and trade name franchising is not a franchising type in Europe or Finland. This is a general interpretation of franchising in Europe and therefore Finland follows the European style. Compared to the US Europe has focused more on business activities. From the Finnish perspective it also makes things simpler since franchising as a word can be confusing. When it comes to legislation issues, there are no specific laws controlling franchising operations. Franchising is covered by general business laws. Vastamäki does point out that this is a topic of current interest and conversation. Sweden already does have some legislation concerning franchise agreements in particular. The issues that are under legislation in Sweden are covered by the ethical rules of franchising in Finland.

There are no general figures on how much the starting up costs for franchise operations are in Finland or abroad for that matter. Only the sky is the limit and there is no minimum capital required either. The costs naturally vary from industry to industry and can be whatsoever. As an example the fastest grown franchising chain in the world, Curves, female fitness center, started with one fitness gym in Harlingen, Texas, US in 1992. At the moment there are over 10 000 Curves fitness centers around the world in over 80 countries. Behind all of this is a marriage couple who started with franchising three years after the beginning of business with an initial capital of USD 10 000 (Curves -health club and fitness centers).

It is typical for a franchising chain to have at least one own unit that they can try out and invent new business ideas for the chain. Only a small portion of chains does not have own units, in Finland an example is kiinteistömaailma, real-estate business. The most important thing in starting up franchise operations from new franchisors point of view is the business idea/concept. If the concept is not successful and entrepreneurs are not ready to pay for the concept and start up running business under the same name it is not fit for franchising. In all kinds of business the core foundation is always the business plan, same goes for franchising. After the basics are taken care of there are multiple steps to take in starting with franchise operations such as; writing manuals, looking for business locations, finding entrepreneurs to become franchisees etc.

To conclude, Finland follows the style Europe has set for franchising to consider only business format franchising as an official type of franchising. At the moment there are no specific laws considering franchising in Finland but all the franchise chains that belong to Finnish franchise association must follow ethical guidelines in their operations. The costs to start franchising operations are not set, but vary from industry to industry and business to business. In most franchising chains the franchisor runs at least one unit him/herself to try out new ideas etc. The most important issue is to start with is a business plan, after the basics are clear and the concept able to be copied the process of starting up a franchise can begin.

Women and franchising

Once again, there are no statistics on how many female franchisors there are in Finland or anywhere in the world. Out of the franchisees internationally female represents about one third and in Finland more than one third. Compared to entrepreneurship there are more than double the amount of women involved with franchising. The franchising concept attracts women for it is seen as a safer option and women appreciate the network and support they get from franchising, whereas men want to do everything on their own and make decision themselves. Furthermore, as women do not generate many business ideas, or they do not have the courage to implement their own ideas in the same way as men do, franchising provides an option to avoid taking risks. There are also a lot of industries that are dominated by women within franchising chains such as the cleaning industry, restaurant and café etc. service industries. If a woman wants to earn more money than as being an employee for someone else but not start a business on her own franchising is a convenient option for that. Or if a cleaning lady wants to advance on her career becoming a franchisee can offer that advancement for her.

When it comes to financial supporting female entrepreneurs starting franchise operations the rules are same as starting any business operations. When the franchise chain is already well known for example R-kioski in Finland, it is easier for the franchisees to get finance when opening up a franchise unit compared with a private convenience store. Therefore it is important for the franchisor to build contacts and make oneself well known, this will make it easier for the new franchisees to get finance and join the chain.

To sum the topic up there are not much statistics on women in positions of franchisors but from the point of view of franchisees there are one third of female franchisees globally and a bit more in Finland's scale. A lot of the industries that franchising has been successful in are dominated by women and therefore a lot of women have seen it as a good option and possibly a career advancement to buy a franchise. In Finland women get the same financial aid as when starting up any business operations, in that light franchising is seen as a business operation like any other business. It might be easier to get finance as a franchisee when joining to a large, well known chain than when be-

ginning business operations as an individual. This is because the finance companies know the risks of the franchised chain better than of an entirely new business.

Advantages and disadvantages of franchising

The advantages of franchising compared to accustomed entrepreneurship are the fast pace of growth, the input franchisees bring with them; finance, entrepreneurial attitude, motivation, they bare their share of the risks and perform better than hired labor. On the contrary the franchisor will share the profits with the franchisees, to find the perfect franchisees might take time and franchising only really works when the goals to grow are voluminous. For a franchisor the tasks are different from only running a company when there is a whole chain of companies to run. The franchisor develops, guides, supports the franchisees and the operations, also things like customer feedback, quality standards, sales figures etc. are responsibilities of the franchisor.

Finnish Franchising Association

The base members of Finnish Franchise Association are the franchising chains, in addition there are associate members that offer services for the franchising chains. Furthermore the Finland's franchise association is also a member of Federation of Finnish Enterprises, in this way they want to be part of the entire sector. There are about 100 members in the association at the moment. Every franchising chain in Finland is not automatically a member of the association. Only after the application period the chains that operate according to the ethical guidelines are accepted as new members. This is a policy that all the franchising associations around the world work according to. As a member of Finnish franchising association a chain will receive membership services such as seminars, assistant with recruitment, networking, coverage in a yearbook and online, revision of franchising contracts and a wide international network if/when expanding franchise operations abroad. About one third of Finnish franchising chains operate also abroad and another third of the franchising chains are on their way abroad. There are very minor downsides of belonging to the Finnish franchising association except for the membership fees.

The future of franchising

For the past 20 years the franchising business has been building success stories in Finland and the positive growth is only continuing. The changes in the economy makes people think about the career choices they have made. If a person is inexperienced in entrepreneurship but is interested in owning a business they often seek for a franchise to start with.

The future development in the field of franchising will come from the growth of service and care sectors. Also new concepts will appear especially from the care sector when the population will age and need more services. There are no visible signs for a downturn in the trend of franchising. Franchising does not fit for every business, this will not change. Also, Finland being a big in size and sparsely populated limits the possibilities for the operations to grow or in some cases even to begin the operations.

6 DISCUSSION AND RECOMMENDATIONS

The following chapters present the findings and conclusions of the research as well as recommendations of what kind of actions the company could take next, subjects for possible further studies and also an outlook of the reliability of this research.

6.1 Summary and conclusions

In this part the main findings are discussed based on the two interviews and the theory. The research question was what requirements are needed for Aku & Ada to become a franchise business. This is the starting point where to look at the results. Table 2 sums up the main findings concerning the requirements; what the situation is now, what is required of a company from Finnish Franchising Associations Executive Managers point of view and what does the literature states.

Aku & Ada was opened on 25th of March 2010. It employs the two owners of the company and financially is still getting started and is establishing the foundations. The two owners have both worked in the industry major part of their lives and both have business related education and experience from managerial tasks from before. The

business idea of the store is to sell a mixture of quality clothes from different brands and help the customer to find what is right for her/him. The entrepreneurs enjoy the freedom and flexibility of being able to make their own decisions and run the operations their way. They find it challenging to face customers with a poor attitude towards themselves but get feelings of success when every customer is being helped and satisfied. Also the tasks are not divided equally between the two owners; this has been discussed and there should be a change coming.

According to Juha Vastamäki, the EM of Finnish Franchising Association a company that is looking into franchising as means to grow the operations should be able to prove that the business works and is able to sell their business idea to the franchisees. The tasks of franchisor are to develop, guide and support the franchisees, as well as manage the entire chain as a whole. The business idea should be clear, written down and duplicable. The advantages of franchising operations are the rapid growth, the contribution of franchisees; they bring capital, entrepreneurial attitude, they have strong motivation to make their investment grow and thereby share the risks of the operations. In contrast a franchisor does share the profits with the franchisees and it might take a lot of effort and time to find the right franchisees to trust part of the business to.

From theoretical perspective franchising suits best for young companies that might lack the financial capital where the franchising fees and royalties will bring in some of the needed funds. Franchisees are looking for a “proven” product, so when beginning franchising the business should have been well tested and the company should have experience of outlets that are company owned and successful (Barringer, et al. 2010, 518, 523). An entrepreneur who is considering becoming a franchisor should possess qualities that fit for a descriptions of an educator, trainer, psychologists, perpetual hand-holder and a manager, for franchisors need to be able to provide assistance to franchisees in every aspect concerning the business (Keup 2007, 59). As the benefits of franchising Barringer (2010, 522) has mentioned rapid, low-cost market expansion and income from franchise fees and royalties, Murphy (2006, 186) brings up the lower risk for franchisor and business talent in form of franchisees and Francoise (1997, 14-15) mentions the knowledge of local markets by the local franchisees. As the hindrance of franchising brought up are things like profit sharing and lost of control (Bar-

ringer 2010, 522), the relationship with the franchisee requires trust and it might become fraught (Murray 2004, 20-21), Francoise (1997, 17) also points out the possible loss of control over the network.

Table 2. Abstract of the key findings

Themes	Present situation Aku & Ada	Requirements Juha Vastamäki	Theory
Operations of the company	A young (8months), small company, operating in a small town	Able to prove that the business works and to be able to sell the idea to the franchisees	Tested and experience of outlets that are company owned and successful
Entrepreneur	Entrepreneurial, business education, strong experience of the field of the industry	The franchisor develops, guides, supports the franchisees and the operations, also things like customer feedback, quality standards, sales figures etc. are responsibilities of the franchisor.	Franchisor is a business person as well as an educator, trainer, psychologist, perpetual hand-holder and looking after what/how things are done. Franchisees are not employees, but entrepreneurs working under the same name.
Business idea	Selling brand clothes to young and youthful women and men. Providing personal customer service.	Clear, written down business idea, able to be cloned	Successful and proven to work, concept able to be standardized; this is the core idea in franchising
Advantages	Freedom and flexibility of entrepreneurship	Fast pace of growth, the input franchisees bring with them; finance, entrepreneurial attitude, motivation, they bare their share of the risks and perform better than hired labor	Fast expansion, method to raise capital, shared costs, efficient marketing, local knowledge from franchisees, business knowledge and fresh ideas from franchisees
Disadvantages	Inequality between division of tasks	Shared profits, finding of the perfect franchisee	Shared profits, loss of control over the network, troublesome relationship with franchisees, difference in the business skills, underperformance

In conclusion, Aku & Ada is not in a state where a business should be in order to begin franchising operations according to the theory and the EM of Finnish Franchise Association. Their business concept is not yet proven to be successful in a wider scale; in addition they have only one store which is still in a phase of settling down. The owners are entrepreneurial and hard working, but they need to think carefully if they have what it takes to be on top of a franchise chain; manage the operations and the franchisees. Also, it is recommended to evaluate the business idea and recognize if it is duplicable, if not, identify what should be changed or modified. As a revision most central requirement to start with for a company getting into franchising operations is a clear and successful business concept that is able to be copied and that franchisees are willing to buy.

6.2 Recommendations and propositions

Theoretically once the business is strong financially and surmounted the first year or two there is no reason why franchising could not be an option. Companies grow followed by two things. Firstly, their product or service is successful and becomes well known. Secondly, when the company has been making profit and has the financial capability to expand. The companies should consider franchising as an option to grow when they have something that others do not in terms of trademark and a strong, well designed business model (Barringer, et al. 2010, 518; Murray 2004, 13).

Aku & Ada has already proven that at least in Leppävirta they have a service that is successful and their operations are already well known even outside of Leppävirta. For the qualifications to grow they still need the financial stability. When it comes to franchising and having something that others do not have and a strong business model, their concept at least in a small town of Leppävirta is working and therefore this criteria is also fulfilled to some extent. If they are expanding to larger cities the key problem will be with the limitations of the brands in each city and town. This is a strategy which needs to be carefully planned. Perhaps as the owners stated in the interview they should narrow the brands down and the segmentation should be more focused. This will probably lie ahead of them whether they choose franchising as a growing strategy or choose to expand in some other way. The owners are well aware of their present situation and for now the main focus is establishing good foundation for their busi-

ness. After the financials are stable the time to consider different options for growth is more current. Franchising is one option if they figure out how to make their concept duplicable. Other option that were thrown in the air during the interview were importing new brands to Finland that are not available for the consumers yet, ecommerce of Aku & Ada and even a company owned unit in some other city/town. The last one mentioned could also be a step towards franchising operations depending how the other store thrives in another location.

6.3 Reliability of the research

Any research aims at avoiding mistakes and yet the reliability and the validity of researches can fluctuate. By the reliability of a research is meant the consistency of the findings (Hirsjärvi et al. 2009, 231; Saunders, et al. 2009, 156). It can be assessed by reviewing the following questions (Easterby-Smith et al. 2008, 109):

1. Will the measures yield the same results on other occasions?
2. Will similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?

To answer to these question concerning this research, the first one is naturally no. If the company had been running for longer and was financially more stable and possibly would have expanded already to another location the results could easily be different. The question number two can be a little controversial since everyone observes situations by using their own background and knowledge mixed with the occurrences. In this case I think that the interviewees made their point clear enough for another observer to come to similar conclusions and therefore the answer to the question number two would be yes. For the third question concerning the transparency I would also answer yes. The used research methods are discussed, it has been made clear when, how and who have been interviewed, the findings are disclosed in detail and the summary is based on straight to the interviews and the theory. Also the interview questions can be found from the appendices, for the interviewee they were naturally presented in Finnish.

Another measurement of research is the validity. This concern whether the research methods are measuring what was supposed to be measured (Hirsjärvi et al. 2009, 231; Saunders, et al. 2009, 157). The validity of a qualitative research can be achieved

through an accurate description of the implementation of the research (Hirsjärvi et al. 2009, 232). This has been carried out in this research and therefore an endeavor for the validity of the research has been undertaken. A further point of view is a generalisability, or external validity, and it refers to how well the results of a research are generalisable. By this is meant how applicable the research results are to other organizations. When conducting a research for a specific company one should never claim the results could be generalised (Saunders, et al. 2009, 158). In the conclusions of this study there is no mentioning of the results being applicable to other situations.

6.4 Subjects for further studies

In general this research has proven that there is a big lack of research of franchising from franchisors point of view, especially from of female franchisors. In Finland Tuunanen has basically been the only one publishing research of this form of business operations. When there are only a few studies from a subject they tend not to be focusing on specific theme but cover the subject more comprehensively. Tuunanen (2005, 103-104) and Vastamäki agree that franchising will grow and conquer new industries etc., taking this into consideration franchising ought to be receiving more attention from the researchers as well as businesses and other officials.

From Aku & Ada's standpoint further studies could be exploring of other growth strategies, such as importing of new brands, product/service development or geographic expansion by company owned outlets. If franchising is chosen to be a potential growth strategy then a closer study on the next steps should be made that includes for example what should be altered in the business concept and which location the business could be taken etc.

7 CONCLUDING REMARKS

This thesis was assignment from a clothing store called Aku & Ada. It is still a young company in a textile industry but growth will possibly be ahead of them sooner or later. It is good to explore the possibilities before making decisions and this thesis presents the owners one possibility for the future which includes growing through franchising operations.

From my own point of view this research gave thorough basic knowledge of franchising for the owners of Aku & Ada. Based on the information they receive they can form better judgments and opinions towards franchising. No matter what the final results of the research are, what really matters is the opinion of the entrepreneurs towards franchising with the information they can gain from the theory and the interview of the EM of the Finnish Franchising Association.

This was an interesting process for myself as well, since I did not know very much of the subject beforehand and it is a current topic in business life and touches the lives of every consumer in some way. The process was carried out in a quite short period of a time, and therefore it was a bit stressful, but this was a decision I made and do not regret the time frame set for the process. If something could be done differently I would have decided of the third interview from the very beginning of the process and then have had more time to look for an alternative when the original interviewee did not cooperate. Now the results are only from two perspectives and the third point of view would have been very complementary for the big picture. Personally I also find the theoretical part a bit ponderous to read; same it was to write, not as a whole, but partially. This is an academic research and therefore it must be as it is and the readers can make their own decisions what parts are of their interest and find useful to read. All in all in my opinion I have succeeded in the process and hope that this will be useful for the owners of Aku & Ada in some way now or in the future.

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BACKGROUND OF THE ENTREPRENEURS

- Education backgrounds?
- Work experience before the present company?
- Why entrepreneurship?

BACKGROUND OF THE COMPANY

- When did the company originate / how?
- Why this specific point in time to establish the company?
- Where did you get the finance?
- Where did you get help with the establishment of the company?
- Who does the company employ?

OPERATION OF THE COMPANY

- How has the company's operations started going so far?
- When did the company started generate profit?
- What have been the biggest challenges?
- What about the easiest things?
- What have been the nicest things in running the company?
- What about the tiresome things?
- Has there been any surprises along the way?
- What kind of day is a normal working day?
- What is the essential competitive advantage of the company?
 - What makes Aku & Ada?

THE GROWTH OF THE OPERATION OF THE COMPANY

- Why do you want to expand your business operations?
- Where did the idea of franchising came from?
- Has other expand strategies been considered?
- What kind of managerial experience do you have? (eg. hr, management, training)
- What kind of financial qualifications do you have at the moment?
- What kind of scale do you have in mind for the expansion?
- How fast do you want to grow?

FRANCHISING

- How much do you know about franchising as a form of entrepreneurship?
- Do you dare to give part of your company to the responsibility of another entrepreneur?
- Is there something particular you would like to find out of Finland's franchising association / their operation?

TO BEGIN FRANCHISING OPERATIONS

- Today even younger companies choose franchising as growing strategy
 - How long on average have companies been in operation before starting with franchising?
- If company is young when starting with franchising operations then the concept might not be thoroughly been tested / functioning
 - How do the young, unknown companies get franchisees?
- Are the franchisor and franchisee ever acquaintances with each other?
- How profitable company should be before going into franchising?
- When franchising is not a functional option for a growing company?

FRANCHISING IN FINLAND

- Why product and trade name franchising are not officially franchising types in Finland/Europe?
- What worth of mentioning about franchising compared to other company forms there is in Finland's company law?
- What kinds of amounts are involved when starting franchising operations for the franchisor?
- How much are there franchising chains in Finland where the franchisor does not have any of it's own units? (chain only has franchisees operating the units)
- What does franchising requires in practice from the company?

WOMEN AND FRANCHISING

- How much of the franchisors are women (in Finland or internationally)
- What about of the franchisees
- Why franchising concept attracts women into entrepreneurship?
- In Finland female entrepreneurs receive special financial support when starting entrepreneurship, are there similar financial aids in terms of franchising for women?

ADVANTAGES AND DISADVANTAGES OF FRANCHISING

- What are the biggest advantages for the franchisor compared to regular entrepreneurs?
- What about the disadvantages?
- What takes most of the time out of franchisors work time?

FINNISH FRANCHISING ASSOCIATION

- How's side/who belongs to the Finnish Franchising Association?
- How much companies belong to the Finnish Franchising Association at the moment?
 - Why all inclined franchising chains are not taken as members?
- How does the franchising chain benefits from belonging to the Finnish Franchising Association?
- What kind of disadvantages can there be for being a member of the association?

THE FUTURE OF FRANCHISING

- How does the future of franchising operations seem in Finland?
- Franchising concept has evolved a great deal during the past few decades, what could be the next big step?
- When franchising operations growth will turn to decline and make room for some new form of entrepreneurship?