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IMPLEMENTING FRANCHISING INTO A BUSINESS

Based on my own business plan

Thesis

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ABSTRACT

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Name of thesis IMPLEMENTING FRANCHISING INTO A BUSINESS. Based on my own business plan.		
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<p>The aim of the thesis is to successfully implement a business system based on franchising into the author's own business. The thesis will provide information about the actual business plan, theoretical and practical investigation on how franchising would efficiently work in the Finnish market, basic principles of cooperation on a franchise basis, categories of franchising (in general and in cooperation with the author's business plan), advantages and disadvantages of having franchising as a secondary source of income and the current state of franchising.</p> <p>The author's objective is to determine whether franchising would provide a great opportunity for his own business to flourish or will it prove to be an immense failure. What is more, what advantages he would have over his competitors and how franchising could improve his business operations.</p>		

Key words Brand, Business, Franchise, Franchisor, Franchisee, Know how, Trademark
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CONCEPT DEFINITIONS

Franchise - a right to sell a company's products in a particular area using the company's name.

Franchisor - The company owning/controlling the rights to grant franchises to potential franchisees..

Franchisee - A person or entity to whom the right to conduct a business is granted by the franchisor or licensor.

Trademark - the name or other symbol used to identify the goods produced by a particular manufacturer or distributed by a particular dealer and to distinguish them from products associated with competing manufacturers or dealers. A trademark that has been officially registered and is therefore legally protected is known as a Registered Trademark.

Know-how is a term for practical knowledge on how to accomplish something, as opposed to “know-what” (facts), “know-why” (science), or “know-who” (communication). Know-how is often tacit knowledge, which means that it is difficult to transfer to another person by means of writing it down or verbalizing it.

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1 INTRODUCTION

Franchising attributes to a considerable dimension of business movement in many developed countries of the world and incomparably contributes to local economies. For example, there are close to 300 franchising systems in Finland operating over 7,000 units around the country. Franchising employees over 41,500 people of which some 3,900 are franchise business owners.

"Franchising continuously proves to be the fastest growing industry of the Finnish economy with a steady annual growth rate of 4 to 5 percent." The amount of the population in urban areas and innovations in the economic and social patterns demonstrate that franchising will continue to expand in new business areas. "The increasing demand in the service sector along with the heightened attraction in self-employment are likely to create new possibilities for franchising. This growth in franchising is also evident in many other countries, necessitating greater attention from researchers".

This thesis seeks to revise the idea if implementing a franchise business into a private company will prove to be successful. All the research conducted by me has validated the idea that implementing the above mentioned statement is profitable and worthwhile. Though the study has presented some methodological problems during the findings of the research. I the author have embraced the idea of running my own company and therefore, have decided to enter the franchise system. However, the characteristics of each franchising business are dissimilar in some crucial respects to the countries they operate in. I have come to acknowledge that general principals of a franchise system existing in Finland differ from the ones in my home country (Poland). The thesis in detail answers all the questions I have asked myself while in the course of inquiry into the Finnish franchising system. For example, the basic principles of cooperation, franchising in Finland and its current state.

What is more, since my company PURE will be conducting business with a Polish firm Merida it will be limited by language barriers. Translation of all the documents and agreements devised between the two above mentioned companies will have to be made by professional translators therefore creating additional costs and difficulties. To accept and better understand the limitations I have devised to comprehend the limitations of my research by reading relevant literature published on the matter and conducting further research.

The franchising industry is divided into several franchising types: According to the type of activity; According to know-how transmitted to the franchisee and according to the system of the organization. These franchising types determine the franchise business one intends on engaging. It is commonly known that in order to start a franchise with a mother company one requires both money and time.

Moreover, once the capital is invested into a franchise business a franchisee can expect advantages in the form of a franchise pack and disadvantages which are broadly discussed in section 3.6. of the thesis.

As outlined earlier in the introduction and later on in the thesis, franchising in comparison with other countries is a new business concept in Finland. Most of the franchise businesses functioning nowadays were created in the last decade. Therefore, the legislation concerning franchising in Finland is formed on the European Union legislation.

In order for my business to develop I assessed myself with a questionnaire to determine whether or not I am theoretically and practically prepared to implement franchising into my company, and if it will result in my company achieving success in the Finnish market.

I hope that all the information exhibited in this chapter has given reason to my study. I have identified the research problem and have made it the focus of this study. The consequent chapters will show how the study question has been explored and will detail and clarify the

data. Afterwards, the constituents of these findings will be deliberated upon and the significance of this study in terms of input made to theory and practice will be conclusively provided. The following chapter presents the business plan I and the co-owner of my company have drafted.

2 BUSINESS PLAN

2.1 EXECUTIVE SUMMARY

PURE is a cleaning company located in Ylivieska. It's target area for business is Northern Ostrobothnia. PURE is managed by Surya Yadav and Patrick Krzyżaniak. Ownership of the company is based on a partnership relation which is 50% of ownership shares for each owner. PURE's customer targets are: industries, manufacturing companies, shops, offices, private houses, hospitals, food industries, transport vehicles, smaller businesses. Due to Finland's high industrial growth especially in the Northern Ostrobothnia region, PURE hopes to take over as many industrial sites as possible in the upcoming years. The companies' policy and strategy is fresh and innovative which should provide it with many great possibilities of acquiring an abundant amount of customers over time. PURE wants to: build a company that will lead the cleaning service and physical wholesale market in Northern Ostrobothnia, alter the way cleaning companies are managed in Finland, introduce new products onto the Finnish market, implement franchise system, deliver the finest quality of service at the lowest cost with the highest customer satisfaction.

2.2 Description of the Business

PURE is going to be a service providing industry and its main target will be accommodating cleaning services. PURE is going to be a professional cleaning company whose mission is to provide the customer with all cleaning services in an environmentally sound, completely trustworthy, and professional manner. The company will exist to attract and maintain its customers. We guarantee that our services will surpass the expectations of our customers.

2.2.1 Goal and Objectives

The company's main goal is to build a leading firm in the cleaning and wholesale market in the Northern Ostrobothnia region. To achieve that goal our services will be conducted in such a manner so as to maintain customer as well as employee serenity and content. PURE, with its fresh and innovative solutions as well as the guarantee of high cleaning services wants' to develop brand equity so that it is commonly known to be the premier in all cleaning service regions.

The segment of the market that is the target group which PURE has labeled as addressable for cooperation are shops, companies, industries, organizations, personal houses, hospitals, transportation (brief description in 'Product and Services' chapter).

Our goal is to provide cleaning services to a wide range of customers. We are utterly convinced that the cleaning industry is an industry of growth on account of the perpetual rise of population which therefore leads to a constant expansion in numbers of organizations, shops, houses and other places which require cleaning. We strongly believe that due to the immense growth of Northern Ostrobothnia for the past few years we should categorically find more and more clienteles within this region which should boost the market as well as our sales. There are a wide range of businesses that implement short term contracts to ensure low cost services. The expiration of these short term contracts between an organization and our competitor should provide PURE with a probability of taking over the provided cleaning services on account of our credible quality of work and low prices.

2.2.2 Strength and core competences

The primary strength as well as objective of PURE is to provide services at the lowest costs possible and maintaining customer satisfaction. To meet these related goals PURE intends to employ customer service strategies, to perform quality assessments on a daily basis as well as

provide feedback for the improvement of provided services and to develop loyalty programs for all patrons. In addition, PURE has made its priority to introduce a new manner of management in the cleaning industry. For example, speaking out of experience we know it to be true that there is no cooperation or proper communication between the management, employees and customers. PURE, strongly believes that thanks to the introduction of a new way of accommodating cleaning services customer satisfaction along with service quality will exceed present standards. What is more, PURE will introduce new and cheaper cleaning products onto the Finnish market which will provide it with an upper hand among competitors.

2.2.3 Company ownership / Legal Entity

PURE is a company established on partnership. I myself, Patrick Krzyżaniak and Surya Yadav decided to open a partnership company as a result of our two year cooperation as co-workers for our current employer. The incentive that pushed us to making such a decision was the desire to become entrepreneurs and to open a cleaning company that will bring excellent cleaning services to its customers.

2.3 PRODUCTS AND SERVICES

The services that PURE intends on providing comprehend hygiene, precision and hard work. We aspire to deliver these standpoints with the best output and satisfaction to our customers.

PURE will address all cleaning requirements in the following industries, shops, smaller businesses, personal houses, transportation vehicles (busses and so on) and sites that require high hygienic and antibacterial treatments like hospitals, food industries etc. PURE will provide complex cleaning for all the above mentioned sites. By meeting face to face and making proper arrangement with customers we will be able to distinguish and pinpoint all crucial

areas that need sanitation. Due to PUREs altogether original and different attitude we will abide by the set arrangements so as the communication between PURE and its clients is transparent and kept in a professional manner.

PURE distinguishes altogether all the different types of cleansing services each facility entails, which includes diversified surfaces, machines and sanitary detergents. Thus, we have prepared a particularized list of services offered by PURE. These go as follow: Industries, shops, offices (all floor surfaces, all other surfaces, machines, windows, offices, toilets, kitchens, changing rooms); Hospitals, food industries (all floor surfaces, all other surfaces, food machines, sanitary equipment, windows, dishwashing, offices, toilets, kitchens, changing rooms); Transport vehicles (all floor surfaces, all other surfaces, seats, windows, trunk); Smaller businesses, personal houses (all floor surfaces, all other surfaces, windows, toilets, bathrooms, dusting, carpet cleaning).

2.3.1 Products / Equipment

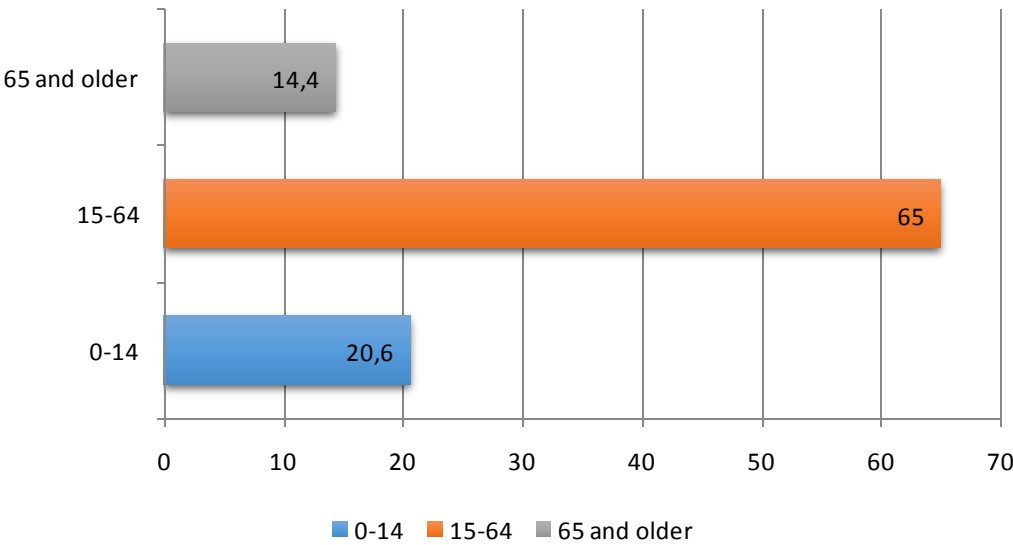
PURE in order to perform its work will be handling chemicals and cleaning detergents that have existed in central Europe for years. PURE wants to introduce these products onto the Finnish market, make them available to all and distribute them within Finland in the near future. The company providing all the equipment and chemicals is Merida.

PURE has established a favorable relationship with Merida, therefore leading to very good business arrangements. This cooperation should ensure PURE smooth entry onto the Finnish cleaning service and physical wholesale market thanks to the high quality of rendered products. We consider this relationship to give PURE an overwhelming advantage over its competitors. The quality of equipment and cleaning detergents used by PURE is approved by the National Institute of Public Health and National Institute of Hygiene, Department of Food Safety. All certificates and characteristic cards will be included in the appendices. (Chapter 4, more detailed information)

2.4 MARKETING PLAN

2.4.1 Economy

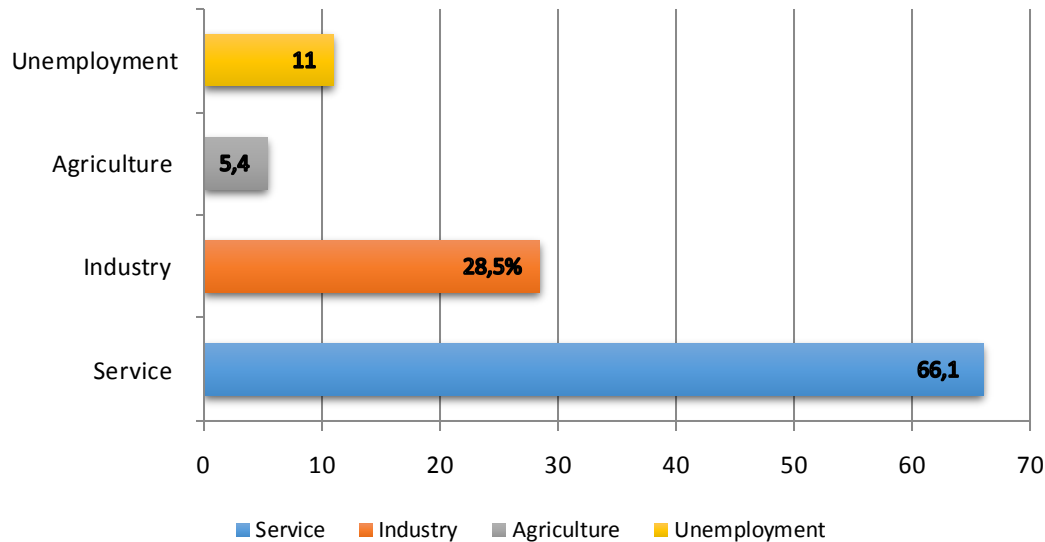
According to our market research, we have established that there are three major cleaning companies operating within Ylivieska. This research leads us to assume that once PURE enters the cleaning service and physical wholesale market it shall have about 25-30 percent of the market share in this region. In accordance with our survey, each year Ylivieska has shown to grow at a fixed rate of about 15% which simply put, means a rise in the number of houses, organizations, industries and so on. Therefore, verifying that this segment of the market is flourishing day by day. The graph below presents how the market is segmented according to age in Ylivieska;



GRAPH 1. Population by age in Ylivieska

In agreement with the data we have collected, the group of middle aged people will decrease by 20% whereas the group of elders will increase by the same rate. This means that the growth trend for cleaning households will accrue dramatically within the next couple of

years. With further research, we have learned that commissioning in various segments of industries is as follows:



GRAPH 2. Economy segmentation

As stated in this graph, one can see that major businesses within the economy are clearly connected to the service industry. Consequently resulting in a huge market growth for the cleaning industry.

The analysis of the cleaning service and physical wholesale market has exposed some barriers and inconvenient processes PURE will have to face when entering the Finnish market.

These are as follow;

- Consumer acceptance and brandrecognition
- Shippingcosts
- Language barriers

We believe that the language barrier might be the biggest issue PURE faces to gain consumer acceptance. To handle this problem head on, PURE offers the initial cleaning service free of charge to each customer to try to persuade them and convince them of the high quality of our

services and the recognition of our brand. As mentioned earlier, PURE plans on acquiring all its machines, cleaning equipment and cleaning detergents from abroad which might result in extra delivery costs. Furthermore PURE, anticipates on opening Merida's franchise branch in the near future with hopes of lowering the delivery costs

PURE is knowledgeable that the market might within time reveal some differences in technology, government regulations and economic issues. These go as follow:

- Change in technology: Since we are a cleaning company, most of our work is done by hand and non-mechanical equipment so we believe technology would not have that much of an effect on our business.
- Change in government regulations: The increase in taxation, pension payments and social security insurance fees might affect our final price.
- Change in economy: This branch will not affect our company due to high and stable market growth within the cleaning service segment in the Northern Ostrobothnia region.

2.4.2 Services

Below is a compiled list of the major services PURE offers:

Industries, shops and offices. These places require high quality cleaning due to everyday presence of customers and staff members. Owing to PURE's guarantee of professional cleaning and the maintenance of the high sanitation standards of customer requirements of these facilities, our contractors would undoubtedly benefit. Beginning with the recognition by staff members of working in a hygienically clean environment and ending on customers' satisfaction of visiting a dirty free facility.

Hospitals, food industries. The following locations are especially in dire need of hygienic cleaning due to the presence of all sorts of bacteria and the necessity of medicine, aid materials, equipment, and food kept in sanitary conditions. PURE intends on applying all chemi-

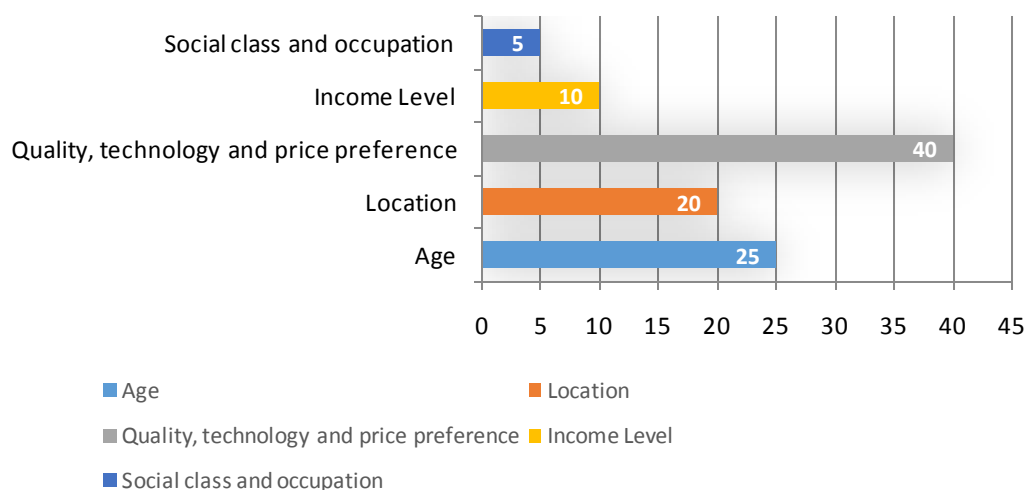
cals and special cleaning detergents (provided by Merida) meant for bacterial and sanitation purposes to maintain these facilities in bacteria and toxic dirt free conditions.

Transport vehicles, smaller businesses, personal houses. In this particular group the residential households would be the largest group in need of cleaning services notably the affluent elderly in behalf of age increase.

After-sale services that PURE will provide are: warranty for all damaged goods during performed work, service contracts like long term, short term, part-time or one time contracts. Moreover, PURE will be performing quality assessments on a weekly basis and retrieve customer as well as employee feedback. When needed PURE will update agreements between private and company entities, and our enterprise.

2.4.3 Customers

Based on demographic analysis for each industry we came out with the following profile:



GRAPH 3. General demographic profile for Ylivieska

One can see that as shown in the graph above quality, technology and price preference these are the features that people within the demographic society take under consideration when it

comes to choosing the services provided by a cleaning company. All the rest of the preferences follow.

2.4.4 Competitors

During our research we have discovered that there are a few cleaning companies present on the cleaning service and physical wholesale market that are our major competitors: Wash Palvelut, PTT Palvelut OY, SOL, ISS.

PURE will most definitely compete with the companies listed above for location, services and customers. However, PURE offers additional services that distinguish it from the above mentioned companies. Which are: cleaning private households, cleaning after city or other public events and one time cleaning administrations.

2.4.5 Niche

Our preeminent focal point will be set on small businesses and private households. Furthermore, the data and research that we have provided clearly demonstrates that we will be offering the best quality of cleaning services at the lowest prices on the market.

2.4.6 Strategy

PUREs single objective is to position itself at the top of the cleaning service and physical wholesale market. Our marketing strategy will first attempt to build customer awareness, develop the customer base, and work towards developing customer loyalty and referrals. To attain these goals our company PURE, would like to administer Porter's generic strategies plan since it seems to be the best choice. Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus

strategy into two parts: "Cost Focus" and "Differentiation Focus." These are shown in the figure below.



GRAPH 4. Strategy focus

We would like to select "cost leadership" and "cost focus" as our market strategy. We know very well that we have low labor costs, material costs and administrative costs, and if need be we can cut down two of these costs, therefore we think we can become one of the leading companies on the cleaning service and physical wholesale market by choosing the cost leadership market strategy. Furthermore, since our niche are small businesses and private households we believe we could reduce costs here as well by applying the "cost focus" strategy.

2.4.7 Promotion

PUREs promotion mix will be comprised of the following approaches to advertising, distribution and promotion: PUREs brochures and business cards. The first, color brochures will be widely distributed within the area of conduct. The second, will be distributed according to our customer segmentation. The predominant method of our promotion strategy would be a door-to-door method, e-mail notifications, and phone calls. These activities will complement

a referral system which otherwise put is a word-of-mouth referral. During face to face meetings our color brochures and business cards will be handed out as well.

What is more, PURE plans on promoting itself through social media channels like Facebook, Twitter, Google +, website and LinkedIn.

PURE hopes that giving to all the applied strategies it will be viewed as a professional, hardworking, ecological and trustworthy firm in the eyes of its clients.

Our company would like to implement an online identification system so as to make all the managing services easier simultaneously for our customers and our company. The customers would be able to observe all managing and cleaning services concerning them, change them or edit them. Furthermore, if necessary there would be an area to leave any feedback concerning the services we provide or any other issues that the customer would feel like commenting.

2.4.8 Promotional Budget

This chapter will present the financial analysis of PUREs marketing movements. PURE will address the promotional and sales forecasts as well as the fees for our services and how they relate to our marketing strategy.

We estimated that the budget we will have to allocate for promotion will be around 400 Euros during the first year of conduct. Close to all our costs will be absorbed by the startup budget costs. The ongoing costs which our company will have to bear are connected with setting up the website.

2.5 OPERATIONAL PLAN

The operational plan concerning everyday conduct anticipates to sanitise as many facilities as possible. In the introductory stages of our business besides covering as much ground possible we would feel inclined to broaden the demand for our services by visiting firms, hospitals, super markets etc. to sign more agreements.

As mentioned in the previous chapters, our companies' office will be located in Ylivieska. Most of our everyday management affairs will be concluded in our company car. Therefore, the company cleaning car will act as an office of sorts and means of transport. An additional storage unit will be rented to store all our equipment, cleaning detergents and cleaning materials. Obviously this solution will be temporary. After the company begins to bring noticeable profit a more permanent solution will be sought out. We anticipate that most of our costs for the location of enterprise will include car tax (427, 05€ annual) + insurance (767, 01€ annual), internet connection costs (30€ monthly), per chance printing costs (20€ monthly). Our business hours will depend on the activity needed to be compassed. The cleaning services will start at 05:00am and end at 22:00pm (this will depend on the work contract) and other business activities like meetings, phone calls etc. will be available since 08:00am till 16:00pm. All the equipment used by PURE will be imported from Poland. We have an agreement with the Polish sanitary company "Merida" to provide us with all the necessary cleaning equipment and chemicals.

Initially our company will be comprised of two employees: Patryk Krzyżaniak and Surya Yadav. We shall act as the companies' managers, as well as employees. The first weeks as well as years of work will be performed by the two of us. As the number of contracts increases one additional employee might be higher to cope with the demand. Pure expects to remain with a three person team till noticeable company profit is observed.

The entire process of our operations will look as follows: acquire customers; importing proper equipment along with chemicals on a monthly basis; forming and signing agreements with mutual satisfaction; working hard to gain customer trust and satisfaction

As was mentioned before, the target areas for our cleaning services are: industries, manufacturing companies, shops, private houses, small businesses, event areas, building sites.

2.5.1 Production

Our services will be executed within the Central Ostrobothnia region. Our company will cover the need for cleaning services of the biggest cities and attempt to subdue the cleaning market inside this region. With the constant growth of businesses and private households PURE has an immense opportunity to gain a lot of customers in the near future.

2.5.2 Legal Environment

Our company is aware of all the legal considerations PURE as well as each of the facilities we will be providing cleaning services for requires. We know that PURE will have to take into account obtaining any required licenses or permits, dealing with health and safety policies, creating policy statements and contracts, getting insurance and dealing with future employees. Since our company will at first only be comprised of two employees we think it best to consider using a legal liability company to be responsible for any liability like the damage of a customer's property or the injury of one of the employees. PURE knows that in order to operate on the market we need to obtain a federal tax ID number and if need be a business permit. In conducive to health and safety regulations PURE is conversant with the Occupational Safety & Health Administration (OSHA) regulations, relating to: eye and face protection, hand and foot protection, the dealing with toxic and hazardous substances and others. All the policy statements and contracts will be in writing and agreed upon in advance to inform our clients of the general set of rules. A standard contract will be drafted and then will be modified for each client individually.

Furthermore, as for the legal issues concerning certificates approvals for the chemicals being used by our company, PURE will provide a Certificate of Health Quality approved by the National Institute of Public Health - National Institute of Hygiene, Department of Food Safety for each chemical being used. Additional information about each chemical will be in-

cluded in the Material Safety Data Sheet and product card. The full list of chemicals and their certificates is included in the Appendices. Each employee will have a health insurance, car insurance and tax liabilities.

2.5.3 Staff

At first PURE will have two workers and more will be employed in the future. We will provide training in all cleaning matters. All of our employees will have a Hygiene Proficiency Card (Hygieniaosaamiskortti). For all the employees PURE hopes to hire in the future, Ylivieska offers a constantly developing market, with good schools and student apartments. Since, we the managers of this company are immigrants, we would like to support other foreigners, but not only, and give them employment due to the low possibilities of getting a job for them within the Central Ostrobothnia region. The current staff is well skilled and trained in all cleaning matters. We have gone through plenty of training classes and proper cleaning courses. We have worked for a cleaning company for many years and therefore we have a lot of experience and knowledge in this field of expertise. The pay structure will be market-based with a mid-point reference. Every employee will be assigned to each specific work place with a full list of tasks previously discussed and agreed upon with our customers.

2.5.4 Inventory

All the necessary equipment needed for everyday cleaning will be stored in the company car (a vacuum cleaner, warning tables, a kit for sweeping, gloves, cloths, pads, washers, spray bottles, squeegee, handles, stick pads, floor cleaning machine, working clothes).

The excessive supply of chemicals will be stored separately in a proper storage unit designated for these purposes.

We are going to conduct weekly inventory inspections to foresee what large of an order we will have to place with our supplier "Merida" to continue our services without a hitch. Since,

PURE will be importing its equipment and cleaning detergents the order lists will be made 4 weeks in advance.

2.5.5 Suppliers

Our main supplier will be a Polish company “Merida”. “Merida” is situated in Poland and its headquarters are located in Wrocław. Most of our equipment and supplies will be ordered from them. The list of available equipment can be observed on our investment pages. The financial value of the apparatus is constant however there is a possibility of fluctuation due to market changes. Merida possesses an agreement with a DPD logistic company which will be delivering our orders to Finland. Transportation costs are based on the amount and weight of ordered goods although due to Merida's and DPDs contract prices are fairly low. For the time being we do not predict a change in the supply chain but if needed the services of a local supplier will be taken into account. No delays in delivery is anticipated since, DPD is a private logistic company. Some problems might occur by the Schengen borders but it is not to be helped (only speculations).

2.5.6 Credit Policies

Our company does not conjecture implementing any credit policies among our customers. PURE desires to keep its finances up to date and in an orderly manner. Our understanding will include a clause in which it will be made clear that all payments are to be paid in advance (payments will be collected at the beginning of the month). The installment date will be previously agreed upon with the customers.

2.5.7 Professional and Advisory Support

Once PURE has begun operating on the cleaning market to consolidate it will hire legal advice and others to aid it in legal, management, financial and advisory matters. These are as follow:

- Accountant (once PURE expands, it will need professional accountant support)
- Insurance agent (one will be needed once more employees are hired)
- Banker (he will manage our bank account and loans)
- Lawyer (to deal with legal matters)

2.6 STARTUP EXPENSES AND CAPITALIZATION

Before PURE officially opens and is employable it has to deal with all the startup expenses. These expenses are mainly connected with marketing and equipment investment. All of PURE's investment will include marketing (website, business cards), equipment (vacuum cleaner, spray bottles) and others (car, trademark).

Our research is based upon local and abroad prices for the items and services that are going to be required.

Our website will be made in WIX.com which will provide us with the proper tools to keep the website updated along with the domain, Google positioning, e-mail and others. Business cards and color brochures will be printed by the local printing company.

The working clothes with PUREs logo will be imported from Poland giving to the high costs of buying them locally.

An agreement will be made with either of the phone companies SONERA/DNA for the official PURE phone number and internet connection. Company phones with separate numbers will be provided for each employee. The trademark registration will be handled by a local office. All equipment will be imported from Merida based in Poland.

Since PURE is going to be based on partnership relations each owner will have 50% of the company's shares. PURE does not depend on gaining any investors therefore, it does take into account selling off the company's shares.

3 FRANCHISING. WHAT IS ALL ABOUT?

3.1 History

Administering franchising into a business meets owning one's own worldwide gold mine thus allowing even small companies to achieve success.

The first franchising system ever created in the world was the sales system and service of sewing machines 'Singer'. Founder of "Singer Sewing Machine Company", Isaac Singer was an ancestor of the modern franchise. Since 1851 the 'Singer' company formed a written agreement with distributors, giving them the rights to sell and repair 'Singer' sewing machines in a specific area of the United States.

Modern franchising was born in 1898, when General Motors began to apply franchise dealership. In the 20s of the last century in the United States began the development of the franchise and its standardization. In accordance to the existing rules of franchising a relationship began to build among larger suppliers and wholesale shop owners. This allowed trading organizations to get additional discounts and the use of a third party while maintaining independence.

From petrol stations to McDonald's

After the great crisis in the 30's, franchising became appealing for the oil companies. First, networks for petrol stations become available. After the crisis in the US economy in 1930 franchising began searching for oil companies. The first network of petrol stations was owned by independent franchisees. Typically, gas stations were transferred to small, local businesses as part of the leasing.

The person who is most associated with franchising and its success is Ray Kroc, founder of McDonalds. In 1954, he visited a restaurant in San Bernardino in Western United States. Rather than leave the restaurant after the business meeting he decided to stay and analyze the restaurant by intensely watching how it works on a daily basis. Impressed by the success of the restaurant he persuaded its owners to sell him the license to expand this type of business. On March the 2nd, 1955 he founded his own company. The entry in the commercial register was: McDonald's System, Inc. From this one restaurant in the American province a network of over 30,000 outlets was created around the world – where as 75% was in the hands of franchise recipients. (International Franchise Association)

3.1.1 Franchise in Poland

A bakery, under the banner of A.Blikle, opened in 1992 in Łódź is considered to be the first Polish franchise business. As mentioned by the co-owner of Warsaw's company, Łukasz Blikle, during the first year the bakery was considered to be just a selling department. The entrepreneur bought his products from Blikle in Warsaw and drove to Łódź, to be able to sell his products there with a 50 percent profit. This prompted the owners of well-known brands to sign contracts with the residents of Łódź, which allowed him to open new stores, branded with the Blikle name.

According to reports from the 'PROFIT system' company, in 2006, the number of franchise systems in Poland exceeded 300, and in 2007, franchise investments during the 1 year exceeded 1 billion PLN. An international export of Polish franchise began in 2007 (30 franchisors had franchise outlets abroad). In 2008, the number of franchise systems in Poland towered above 500, and according to a report during the first half of the year 2009 more than 5.5 thousand of new franchises were established. This was noted to be the largest increase of franchise in the history of Poland. Most of the franchise businesses were brought to pass in the food and industrial industries - close to 3,000 units. (Franchising in Poland)

3.1.2 Franchise in Finland

As early as the 1970s, experts operating in Finland probed the possibility of creating a supportive organization on the market. The Swedish-Franchising association was founded in 1973 and since then franchise was enforced in Finland. Industry development had not yet progressed so far that the franchise association would have received sufficient load-bearing capacity and thus the project was abandoned at the time.

In the 1980s the establishment rose up again and so the Finnish Franchising Association was founded on the 20.10.1988. The founders were 17 people representing 14 separate companies.

The establishing meeting elected the Finnish Franchising Association's first president, LL.M. Marja Tommila (Law Firm Heikki Haapaniemi Ky). Other members of the Board were Managing Director Matti Vikkula (Finland Oy Direct marketing), Managing Director Antero Pajari (Impeller Ltd), President and CEO Heikki Karhunen (mullet Ltd), Master of Laws Helena Haapio (Franchise Consulting Ltd. Franchisco). During the first annual meeting in the spring of 1989, it was decided that the number of members of the Board of Directors ought to be increased by a new elected member of the Fleming Timo (Two Line Contracting Ltd) Riitta Mattila the association's education secretary (Finland Marketing Association R.Y.). (Franchising in Finland)

3.2 Key Concept

Franchise is a means to set up one's own business under a well-known brand. It is very popular among the world's largest brands, therefore, worth knowing what a business franchise license is. One's own business, even though operating under someone else's logo is one of the best ways for high earnings. The most important factor is that the risk of failure in one's business is limited to the minimum.

When one hears about the franchise network, usually one associates it with fast-food restaurants such as McDonald's and others. The just mentioned company actually operates on the market as one of the franchise icons, after all McDonald's is considered to be a guru among its competitors, however, there are many more well-known franchise brands. By purchasing the franchise license one decides to conduct business at his/her own risk, but under the banner of the franchisor. Deciding to operate under a well-known brand one intends on ensuring more customers and significantly reducing the risk of bankruptcy. Selecting to cooperate on a franchise basis, both parties sign an agreement informing each other about their mutual obligations. The primary responsibility of the franchisor is licensing the brand and the transfer of knowledge on running the business on a permanent basis throughout the duration of the agreement. The primary responsibility of the franchisee is to follow common network-wide rules for conducting business and paying franchise fees.

Franchise does not only refer to selling the rights to function under a network's logo or trademark, it refers to an entire system of a business's operations. The word "system" is the key to understanding all principles of the franchise business. The license recipient may anticipate on the franchisor's behalf: systematic care, needed training for himself and his staff members in promotional campaigns to support the sales, and 'know-how' to the industry. E.g. knowledge on the specifics of billing and accounting. For the help provided the franchisee must contribute an initial fee to the franchisor for granting a license and then - for the duration of the contract - the franchisee must pay the franchisor a certain percentage of his turnover. This money is used to benefit the entire network and serve all the licensed recipients - they are destined for marketing research, the development of new products and advertising campaigns. The franchisee applies into his business the experience, knowledge and methods developed by the franchisor. (Tuunanen 2005 & Keup 2007, Babcock 2008)

There are many distinct descriptions of franchising formed by well-known people in the franchising world. These definitions can be found in graph 5.

Keup	"Franchising is a method of marketing and therefore entails a business operations in and of itself"
Babcock	"Franchising is business strategy, a way of doing business, and a method of distribution of goods and services designed to satisfy customer needs"
Tuunanen	"Franchising is established through a franchise contract, where the contracting parties agree on governance and use of right. The term franchise refers thus to the right, but also to the contract and the franchise organization"

GRAPH 5. Franchising definitions from the different perspectives

3.2.1 Basic principles of cooperation on a franchise basis.

There are several principles which have to be taken into account while talking about franchise. Both parties have to be aware of these standards and follow them thoroughly. These principles are as follow: the franchisor is the owner of the trademark as well as the brand of the franchise network; the franchisor himself tested his business concept and demonstrated its profitability; the franchisee leads a business under the aegis of the franchisor as an independent entrepreneur: his earnings are profit from operations; the franchisee finances a substantial part of the investment when opening a business and purchasing goods; the franchisee is the property owner of his business facility; the franchisor provides the franchisees with the knowledge on how to properly conduct business (know-how); the franchisee pays a franchise license, as well as a monthly fee for the use of know-how (directly in the form of fees or indirectly in the margins of products purchased from the franchisor); the franchisee deter-

mines the price of the goods or services in his/her facility. Profit (if one appears) depends not only on the amount of sales, but also on a fixed margin on the products; usually, the franchisee has some impact on the type and product variety sold within his facility; the principles of cooperation between franchisor and franchisee are regulated by the franchise agreement; the instructions on how to operate properly within the franchise are collected in the operating manual. (Sherman 2011)

3.3 Types of Franchising

The franchise systems can be divided according to several different criteria, e.g. know-how, economic activity and the organization of the system. The principal classifications according to the type of activity is as follow:

- According to the type of activity:
 - Distribution franchise
 - Service franchise
- According to know-how transmitted to the franchisee:
 - Product distribution franchising
 - Business format franchising
- According to the system of the organization:
 - Direct franchising
 - Area development
 - Sub franchising
 - Regional franchise

(Keup 2007)

3.3.1 Distribution franchise

Distribution franchise is a type of franchise in which the franchisor provides the franchisee with a know-how in the form of a range of goods and knowledge of how to sell them. The franchisee marks his store with the franchisor's trademark and usually uses support in the form of visualization of commercial choice assortment, staff training, customer service, merchandising and marketing. In the franchise catalog, most featured businesses are as follow: food and industrial products, pharmacy and health products, clothing and footwear, children products, cosmetics, jewelry, gifts, house and garden products, electronics, IT and telecommunication, petrol stations, sport products.

The development of the franchise distribution systems occurred earlier than the service systems. Such a trend could be observed in Western Europe and the United States after World War II. This occurrence came about due to the fact that the distribution systems were much easier to develop than the service systems. The standardization of a business trading point was simpler than the shop on account of the need to develop a precise formula or process needs to deliver the service. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.2 Service franchise

Is a type of franchise in which the franchisor provides the franchisee with its know-how in the form of recipes and procedures of service. The franchisee marks his service with the franchisor trademark and usually uses support in the visualization of service, selection and implementation of services, staff training, customer service, marketing and promotion. In the franchise catalog, most featured businesses are as follow: gastronomy, education, beauty and fitness, tourism and hotels, real estate, business services and internet, services for individual clients, finance and banking, legal and economic advice.

The growth of the service franchise system occurred later than in the case of the distribution franchise system. The service system is in fact more difficult to develop than the franchise

distribution. Furthermore, it's difficult to carry out standardization activities in the sales point. IT requires the development of precise recipes or procedures needed to deliver the service.

It is also worth noting that the level of development of service franchise also depends on changes in social habits and fashion for a particular type of service. Consumers must start to eat away from home, so as the development of catering franchise systems can begin. We can observe that annually there is a dynamic growth in the number of systems operating according to the principles of franchising services. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.3 Product Distribution franchising

Is a type of franchise in which the franchisor (distributor or producer) provides the franchisee with its know-how in the form of a range of products or services. The franchisee has the right to sell a specified range of goods or services.

This helps the franchise systems to evolve. During the first period of development the franchisor anticipates an intensive quantitative development of its network and endorses the franchisees know-how in the form of a range of goods or services. Such a system is called a franchise product distribution. Later in the development of their system, the franchisor focuses on improving the quality of the system and develops additional elements of know-how. Once the franchise package contains all of the know-how necessary to establish a company with the party interested in setting up one with pre-established rules and constant support provided by the franchisor, then the system can be called a franchise business concept. Company product distribution refers to the transfer of know-how only into the products distribution (e.g. selection range), while the franchising distribution points to the commercial nature of the business. Both, simple trading systems and services can be called a franchise product distribution (e.g. network with cheap clothing and simple catering stands). (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.4 Business format franchising

Is a type of franchise in which the franchisor provides the franchisees with all its know-how in the form of a full concept of business. The franchisee receives knowledge related not only to the sales of products or performance of services, but in carrying out the enterprise as well (from the guidelines relating to the design of uniforms worn by the staff by means of service delivery, customer service, to the guidance in promotion and marketing).

The business format franchising should not be confused with the franchise formula company with regards to the concept of franchise services. The franchise service indicates the type of business service while the franchise formula company refers to the transfer of know-how in the form of procedures to facilitate the solution to all the issues related with the running of a business, training, franchisee and his staff, and ongoing care and support. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.5 Direct Franchising

Franchise Direct is the easiest and most common way to develop the franchise system. The franchise agreement is concluded directly between the franchisor and franchisee. The franchisor provides to the same recipient license services as described in the contract of franchise, and he fills all the checks to ensure the proper functioning of the company (provides assistance and constant advice, training for employees, conducts marketing activities, advertising and financial-accounting).

When the franchisor creates a franchise system at a significant distance (e.g. overseas), he/she might stumble upon some difficulty in the direct provision of services and control over the franchisees. Then the franchisor should consider the transfer of part of its powers to an intermediary, e.g. using multiple franchise, sub franchise or regional franchise. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.6 Area development

As part of the multiple-unit franchise (area development, multiple-unit franchising) the multiple-unit franchisee (area developer) obtains exclusive rights to the creation of a defined area of units within the franchise system. He usually undertakes to create a certain number of franchise units within the period specified in the franchise agreement.

This agreement is a framework agreement, where the franchisee usually does not acquire permission to use the trademark and know-how of the franchisor. Permission is granted to him in an individual contract for each exclusive unit of the system. This form of franchising is most commonly used by franchisors who want to maintain full control over the characteristics of the franchise directly, but also want to avoid the necessity of recruiting and training a large number of individual franchisees. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.7 Sub franchising

Sub franchising is a form of franchise where the franchisor establishes an agreement with the franchisee (master franchisee) to conduct business within a given area, providing the franchisee with exclusive rights to its franchise package.

The difference between this form of franchising and multiple-unit franchising is that here the franchisee takes over most of the franchisor's responsibilities arising from the franchise package. What is more, the franchisee has the right to suggest that changes be made either in the franchise agreement or the franchise package. However, the franchisor still holds full control over the franchise system, provided by the law, to choose whether to approve the final changes put forward by the master franchisee. Sub franchising is mainly used to create franchise systems in countries where business conditions are substantially different from the conditions in the country of the franchisor. (Keup 2007 & Murphy 2006 & Alon 2009)

3.3.8 Regional Franchise

The regional representative (area representative) is a person (or company), which is inclined to search within a given territory for new functioning franchisees or provide existing ones with services. There is no contemporary law determining the specific rules of franchise agreements: all the agreements are concluded directly between the franchisor and franchisees, all license fees are paid directly to the franchisor. The duties of the regional representative are local advertising, training and supervision of franchisees. (Keup 2007 & Murphy 2006 & Alon 2009)

3.4 Franchise Package

The franchise package, also called a licensed franchise, is the essence of the franchise system, because it contains a complete concept of business offered by the franchisor. The standard franchise package includes:

- Trademark (brand), which the franchisor administers the franchisee with
- Know-how (tested knowledge), how to conduct business under the franchise where the franchisor lends his/her trademark to the franchisee
- Operating manual, setting out procedures for conducting activities within the franchise
- Services provided by franchisors to franchisees
- Franchise fees paid by franchisees to franchisors

(All About Franchising)

3.4.1 Trademark

"A trademark is a recognizable sign, design, or expression which identifies products or services of a particular source from those of others, although trademarks used to identify services are usually called service marks. The trademark owner can be an individual, business organization, or any legal entity. A trademark may be located on a package, a label, a voucher,

or on the product itself. For the sake of corporate identity, trademarks are being displayed on company buildings." (Wikipedia)

Under the conditions specified in the description above, a trademark is protected by law. This applies to all of the goods with labels, to which a certificate of protection has been issued, registered in the Patent Office. The company on whose behalf the trademark has been registered, acquires the exclusive right to use it in business throughout the national territory covered by the registration.

The use of a trademark in particular amounts to the placing of the sign on the products wrapping covered by the registration. The placing of the "®" sign next to the trademark indicates that the trademark has been registered and is subjected to legal protection. (All About franchising)

3.4.2 Know-How

The concept "know-how" was established in the second half of the nineteenth century. The expression is used in industrial practice in the USA and England, but till this very day no official definition has been accepted. According to the definition proposed by the International Chamber of Commerce in Paris, "know-how" means the entirety of a message, so the knowledge in expertise and experience with technology and knowledge of the process of production of a specific product. In the European practice "know-how" was adopted as a common opinion which meant the technical knowledge of confidential nature, directly useful in production and related to particular agreements in the field of industrial property. It is a part of the franchise package which is transferred from the franchisors to franchisees. (Wikipedia)

3.4.3 Operating Manual

The operating manual has to fulfill two basic tasks. First of all, it has to contain a description of the rules, according to which the franchisee has to operate within the framework of the franchise. Therefore, the operating manual should be very comprehensive and describe in detail all aspects of the business conducted by the franchisee. Secondly, it has to include an operating manual which thanks to its detail, and sometimes even meticulousness, the design allows proper protection of the franchisor's business concept, know-how and trade secrets. Below, all information is given on the basic elements included in a properly constructed operational manual. This obviously is not a full list of all the basic elements, because each industry is governed by specific features, which should be reflected in the relevant operational manual records. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.3.1 Introduction

Brief characteristics of the franchise system and the philosophy of doing business with franchisors. The franchisor should indicate in general terms what is expected of the franchisee and what the franchisee can expect from him. (All about franchising)

3.4.3.2 Franchise system

A precise description of the principles of operation of the franchise system which determines how the function of its individual components work and what are the mutual relationships between franchisor and franchisee. (All about franchising)

3.4.3.3 Equipment

The list of equipment necessary for the activity within the franchise system along with the instructions to the supplier's equipment. What is more, tips on how to remove basic and most frequently recurring faults and a list of addresses and telephone numbers to the people

who supply the equipment and service points, should be included. Often the franchisor provides the franchisee with an architectural design of the premises. (All about franchising)

3.4.3.4 Organizational procedures

This section is usually divided into a number of subsections, which cover issues such as: days/hours of opening; job descriptions detailing responsibilities for each employee; staff training; requirements for clothing and presentable staff; recruitment procedures; labor discipline; health and safety requirements; standard forms and procedures; tasks and recommendations for the price policy; supply policy with an indication of sources of supply; the quality standards of products / services, including complaint procedures; accounting - a precise description of all the accounting standards and financial information the franchisee has to follow, and provide the franchisor with. At this point it is advisable to determine the proper methods of collecting the franchisees financial records; franchise fees - a detailed procedure for calculating the fees that the franchisee is required to pay to the franchisor, together with specimens of the appropriate forms; procedures for controlling the flow of cash and banking operations, including the procedures for dealing with checks, payments and credit cards; insurance - requirements for insurance that should be covered by the franchisor, or the details of the insurance program offered by or through the franchisor; inventory control procedures; advertising and marketing - basic instructions in the techniques of marketing and sales used in the franchise system; advertising at the point of sale; description of public relations used by the franchise system; instructions on how to organize a campaign in connection with the opening of the franchisee's point of sale / service; requirements for the use of a trademark by the franchisee and other distinctive signs of the franchise system; a list of a franchisees basic rights. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.3.5 Standard forms to fulfill

This section should contain specimens of all forms used by the franchisees in their activities, including those forms that are already in other sections of the manual. It should also cover patterns of employment contracts, agreements obliging the franchisees to maintain the confidentiality of confidential information, patterns of other contracts used by franchisees in daily activities (e.g. Service contracts or contract work), as well as contracts used in contacts with customers. (All about franchising)

3.4.3.6 List of employees of the franchisor

A list of employees of the franchisor, indicating people whom to contact for data aspects of its business franchise. (All about franchising)

3.4.3.7 Phone book

A list of all addresses and phone numbers, which can be useful in the franchisee's business. Every franchisor should be aware that it needs to keep an operating manual, so that its franchise system manages to keep up with the changes in the market. Any changes or modifications to the manual should be made in the form of a supplement or modify existing content and immediately made available to the franchisees. (All about franchising)

3.4.4 Services provided by franchisors

One of the main practical differences between the traditional distribution network and a fully developed system of franchising is the range of support offered to franchisees by franchisors in conjunction with initial and ongoing services.

Franchisors take generally assumed obligations related to the development of products and services, activities of advertising and public relations for the entire system, solving the problems of the supply and support administrative and financial system, and finally the mainten-

ance of discipline within the system and ensuring the quality of goods or services offered by franchisees.

The range of services offered by various franchisors varies depending on the type of business carried out by the system and the way in which it is organized. A franchise system, which requires the personal involvement of the franchisee in the business (e.g. Cleaning services, which are performed personally by franchisees) will offer its franchisees support in the form of a wide range of administrative and accounting services. In turn, the franchise system, where the franchisee alone has employees and manages the point of the franchise (i.e. Fast-food restaurants) the franchisor will not only focus on current management, but in addition to many other services supporting the management functions of the franchisee the franchisor will also provide intensive training, e.g. In the field of personnel management.

In the eyes of the franchisors, it is extremely important for the franchise system to be organized in a way that will cause the franchisee to feel the continuous need to use its services, which will then result in a fixed payment of franchise fees on his behalf. The use of its support by the franchisees gives him/her the confidence that both the franchisor and franchisee operate in the same standards, and thus achieve the level of sales, which ensures the franchisors influence over the franchise fees. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.4.1 Preliminary Services (before starting the franchisee's point of franchise)

The preliminary services which are offered by the franchisor include: intensive training programs relating to the following aspects: products / services offered by the system; information on competitors; marketing techniques; methods of recruitment and training of workers; accounting and reporting; supplies management; computer software and hardware; the service of specialist equipment. The franchisor helps in choosing the location for he is usually more knowledgeable about the proper franchise conditions a location has to meet. Help in

the construction / renovation of the premises. Ordering and the installation of equipment. Order the first product delivery. Providing of the standard software. Recruitment of staff. Assisting in organizing promotional campaigns in connection with the opening of a point of the franchise. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.4.2 Current Services (after starting the franchisee's point of franchise)

Once a franchisee has opened his business the franchisor assists him with day to day operations like: regular visits and advice from representatives of the franchisor, training for new franchisee employees, research on new products, developing new marketing strategies, joint programs for the purchase of products or services originating from external suppliers, advertising campaigns and public relations organized for the entire franchise system, providing promotional samples for use by the franchisee's in their businesses, organization of trade fairs, the implementation of common procedures for comprehensive customer service, allowing franchisees mutual exchange of experience by organizing periodic meetings, publishing newsletters or corporate intranet launch, development of a common system for the entire website that can serve not only the presentation of the franchise system and its offer, but also give a possibility to upload things, e.g. updates within operation manuals. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.5 Franchise fees

The franchisor should carefully determine the structure and amount of fees that the franchisee will be required to pay. He also has to be aware of the investments that a franchisee needs to make to become a full-fledged participant in the franchise system. Finally, the franchisor should specify the financial results, which he and his franchisees will be able to achieve. Franchisor revenues usually take the following three forms: an initial franchise fee; an on-going franchise fee, a royalty; an advertising contribution; an advertising fee. (All about franchising)

3.4.5.1 An initial franchise fee

An attempt to determine the amount of the initial franchise fee is more of prediction than actual economic calculation. Although, there are a couple of factors that affect the final number. These are as follow: the nature and extent of support offered to franchisees by the franchisor as a service of initial and ongoing services; the cost of the support of the franchisor; the financial resources available to the franchisee; the amount of the initial franchise fees charged by the competition; the value of the franchisors trademark and know-how; the attractiveness of the concept of business offered by the franchisor; the size of the area where the franchisee will operate; the term of the franchise agreement.

Theoretically, the initial franchise fee should cover the costs of the franchisor associated with the creation and sale of the franchise package. However, in practice this fee is not enough to cover these costs, particularly in the initial stage of development of the franchise system. This is partially because the franchisor starting construction of franchise systems often decides to offer packages of franchise entry fee oscillating in the lower limits of the amounts assumed by them. Furthermore, in order to captivate possible franchisees and make his offer more attractive a franchisor who is a beginner in the franchising business will use this technique. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.5.2 An on-going franchise fee

The franchisor collects from his franchisees a fee for the use of his trademark, know-how and for his support in the form of current services which a franchisor provides during the term of the franchise agreement. This fee is usually calculated as a percentage of the value of sales by the franchisee. Therefore, in most cases, the current charge is the main source of incremental revenue for the franchisor, it should be high enough so that it can continuously promote the development of the system, so as to ensure its competitiveness with other systems, and at the same time it should be a decent source of income for the franchisor. Therefore, to determine

the correct amount of current franchise fee it is essential to be familiar with the scope and frequency of current services, which are offered to members of the system by the franchisor. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.4.5.3 An advertising contribution

One of the major benefits of the franchise business for a franchisee is brand recognition and goodwill of the franchisor, and its system as a whole, it often happens that the franchisor charges the franchisee a separate fee that is earmarked exclusively for the financing of promotional and advertising activities of the entire system. When determining the amount of this fee, a franchisor should keep in mind the amount of necessary expenditure to conduct effective promotional activities at the local or national advertising agency, as well as the amount of financial resources needed to produce the right amount of advertising materials. Therefore, he should consider forming a joint marketing fund financed by the public relations activities of the franchise system. (Thomas 2006 & Keup 2007 & All About Franchising & Kuehl 2002)

3.5 Advantages for franchisee

An entrepreneur joining the franchise system can count on multiple advantages. These are as follow: a known trademark; a proven idea; support from the franchisor; help when one is an inexperienced entrepreneur; reduced risks, greater credibility; the benefits of franchisor advertising and promotional activities organized on a national scale; better conditions of agreements with contractors and suppliers. (Sherman 2011)

3.6 Disadvantages for franchisee

Before joining the franchise system, one should analyze all the disadvantages that can come with it. These are as follow: franchisor might want to take control over franchisee; fees (too high); difficult break up; franchisor mistakes. (Sherman 2011)

3.7 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). Tuunanen, in his doctoral thesis closely deliberates the franchising scene in Finland. In accordance with the statistics from 2003 about 177 franchise systems with a total of 6 608 outlets were operating in Finland at the time, beginning with the fields of retail, service and ending on restaurant. The singular segment that had noticed the biggest expansion was retail with 76 chains. The service field followed with 71 chains. Since the year 1999 Finland had detected a growth in the total number of franchise systems, beginning with 30 chains which later on in 2003 rose to 177 chains. 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 established as early as the year 1988, therefore demonstrating how fast franchising had been developing in Finland. Tuunanen further explains that the numbers he provides are only to be taken as directional for during the years from 1999 to 2003, 10 franchise systems had been ceased, whereas only one of them by cause of insolvency. This proves how "safe" franchising was and is, even supposing the franchising system would cease, the business frequently carries on. In addition, sometimes the franchise systems might emerge what happened with the example of the 10 franchise systems mentioned (Tuunanen 2005). In his paper Tuunanen examine in contrast domestic franchises and foreign franchises in Finland. In the year 2003 out of 177 franchise systems 133 (75, 1 %) were Finnish origin and 44 (24, 9 %) foreign. In Europe, Tuunanen declares that Finland has a moderate amount of foreign franchises in the country related to the local franchise system and that most of our 44 foreign franchise systems originated from Scandinavia and Western Europe with only a few from North America. These in addition with the Baltic countries and Russia were also the countries where Finnish franchises have spread. By the year 2003, 21 per cent, one fifth, of Finnish franchise systems had spread abroad. This is a large number even in an international contrast (Tuunanen 2005).

3.8 Current state of franchising

Last but not least I will present some future possibilities for the international and Finnish franchising scene. Since the mid-20th century it has been noted that franchising has been growing at a fixed rate and no changes have been noticed. A lot of new business graduates are drawn to the industries governed by franchised businesses. There are a lot of innovative tools available nowadays to conduct business which are favorable for franchising. Further, franchising has a great effect on 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 2010). Internationally franchising is growing all over the world; presently franchising in general is the biggest trend in the market. Franchising has been experiencing such an immense success on a global scale due to its globalization and its effects. When people seek recognition in the market they want to be identified with world famous brands as symbols for quality and success. Franchising also has made consumers aware of the possibility of constantly demanding high quality service and value (International Franchising Association). Tuunanen had studied franchising very closely in his research, particularly franchising in Finland from 1996 to 2004 and in his thesis from 2005 he 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)

3.9 Franchising legislation

Legislation in Finland, text written by Petri Rinkinen, Attorney-at-Law, Castrén & Snellman Attorneys Ltd August 2005 Revised and updated from an earlier article by Petri Rinkinen and Marja Tommila.

3.9.1 Freedom of contract

There is a foremost principle in respect to the franchise agreement that exists in Finland, general freedom of contract. There is no specific legislative law governing Finnish franchising operations. Nonetheless, certain legislative conditions of agreement are especially essential to franchise agreements. Contingent upon the nature of the franchise business assorted laws govern the material content of a franchise agreement. The following must always be taken into account when drafting the agreement: trademark law, employment law, consumer protection laws, company laws etc. When entering a new market or Finnish market it is always recommendable to be in contact with local attorneys and other advisers. Particularly in franchising in Finland the following legislative provisions may be considered relevant.

3.9.2 Unreasonable clauses and contracts can be adjusted

Section 36 of the Contracts Act (228/1929 as amended) advocates a general condition of reasonableness, where the franchise agreement which has been concluded on unreasonable terms can only be adjusted by a court of law or a mediator. Therefore, it is in the franchisors and franchisees best interest for the franchisor to guarantee that the franchise agreement from the starting point is drafted in such a manner that it is considered reasonable for both of the parties' point of view. Non-competition clauses may not be too restrictive (Section 38 of the Contracts Act) this section of the Contracts Act contains provisions on the use of non-competition clauses in agreements. It states that no non-competition clause shall be binding to either the franchisor or franchisee if it unreasonably restricts either of the parties' freedom of action. The provisions of the EU Vertical Agreements Block Exemption Regulation (Commission Regulation (EC) No 2790/1999) must also be considered in this respect, if applicable.

3.9.3 Price fixing is prohibited

The Competition Act (480/1992 as amended, note especially that the act was amended in 2004 in order for it to follow the EU competition legislation) pursues to assure that all competition within the economy is carried out in a healthy and functional way and so as to avert any detrimental limits of competition. Section 4 of the Act prohibits vertical and horizontal price fixing. What the act means by this is that either the franchisor or the franchise in the chain may change price ranges according to their own desire. However, the franchisor may set a price recommendation, which it has found to be effective. The act faithfully follows the EU competition rules. For further information, please see the web site of the Finnish Competition Authority, www.kilpailuvirasto.fi, pages available also in English.

3.9.4 Disclosure rules are very limited

Finland among other European countries does not have any special legislative provisions governing the disclosure obligations of franchisors. However, the Unfair Trade Practices Act forbids sharing any untrue or misleading information about ones business operations or another parties, which can affect the franchise agreement, in order to influence in any way the supply or demand for a commodity. All agreements which do not provide accurate descriptions of all operations concluded between a franchisor and a franchisee may constitute grounds for termination.

3.9.5 European Union Legislation

Naturally all franchising operations conducted within the territory of Finland are bound by the legislation of the European Union governing franchising. Commission Regulation (EC) No 2790/1999 of 22 December 1999 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices (Vertical Distribution Agreements Block Exemption Regulation), which governs also franchising agreements, which fall under EU

competition rules, is the most important of the EU legislation. In Finland there is no specific interpretation or national rules concerning whether an agreement falls under the EU competition rules or not. That is why general EU principles of the Vertical Distribution Agreements Block Exemption Regulation are applied.

3.9.6 The Code of Ethics of the Finnish Franchising Association

The Finnish Franchising Association (FFA) has issued a Code of Ethics, which all members must abide when closing an agreement. Even if an entity does not join the Association it must follow its code of ethics when composing agreements for all franchising chains. The Code can be found on the FFA's web page in Finnish. The code follows the EFF's (European Franchise Federation) Code of Ethics very closely - truly it is its direct translation. The Federation has comprised its own Ethical Board in front of which all Ethical rules cases are brought.

3.9.7 Judgment of the Market Court in the Musta Pörssi Case

The Finnish Market Court has issued a judgment on chain marketing and its associated liability issues (Market Court judgment no. 1997:012). According to the judgment of the market court if any member of the chain conducts in unlawful advertising the parent company (franchisor) is held accountable for any market activities. Therefore, it is in the franchisors best interest to monitor all market activities of its chain and to draft such an agreement so as to ensure that no advertising occurs which is contrary to the law or to the stipulations of public authorities. Exemption by the Finnish Competition Authority the Competition Authority has issued an exemption (14.3.2003, 187/67/2003 valid till 28.2.2008) on price cooperation by business enterprises when implementing a campaign of offers intended for consumers. This exception allows the use of consistent prices throughout the chain (if certain conditions are met). The conditions which have to be met go as follows: time limitations (no longer than two months), the dealers right to sell the product or service at an even lower price, new exemp-

tions cannot be circulated till the present ones expire (subsequently the previously stated exception concludes, each chain can judge its operations individually and in accordance with the valid competition legislation).

3.9.8 Case Law

There are very little public materials on legal proceedings arising from franchising disagreements because almost all franchise agreements demand mediation as the means of settling disputes. The only Supreme Court judgment pertaining to a franchising operation is judgment No 1996:27 holding that the use of an arbitration clause in a franchise agreement is acceptable and that the said clause is binding.

4 IMPLEMENTATION OF FRANCHISING INTO MY BUSINESS

4.1 Self-assessment questionnaire

In order to determine if franchising would be a good approach for my business and myself I should answer the following questions:

Question: What physical condition are you in? Are you healthy? Do you suffer from any illnesses that could affect your ability to run your own business?

Answer: I am a perfectly healthy young entrepreneur who is about to invest as much time as possible in order to achieve my goals.

Question: How much of your assets are you willing to risk in a franchise business?

Answer: Since engaging into a franchise business cooperation with a Polish company will be an experiment on the Finnish market, I am not willing to invest too much into it. Looking at my first arrangements I can evaluate on investing 2-3 thousands euros.

Question: How much working capital can you afford to put into the business? What are your current financial commitments i.e. do you have a mortgage, loans, bills etc.

Answer: At this point it is still hard to estimate how much of the percentage of my working capital would be subdued to the franchise system due to the lack of precise knowledge about current assets and liabilities. Still work in progress.

Question: Is your partner or family willing to give you full support? Are they happy to share the risks with you?

Answer: Of course my family offers full support in every decision I make. My wife always gives me proper motivation to carry out all my ideas till the end.

Question: How many extra hours above a standard 40 hour week would you be prepared to work as a franchisee?

Answer: Everything depends on how well my business adopts the franchise system. I believe that at the beginning I will be expected to devote at least 20 hours above the standard 40 hours per week. With time and the expansion of my business I expect to hire a person who will fulfill the duties of working as a franchisee.

Question: What reaction would you have to receiving strict guidelines by the franchisor on how to run your business?

Answer: PURE is going to be a cleaning industry with two separate tasks. One of them will be providing cleaning services while the other will be selling Merida products in Finland. I have no objections for the product sales to be controlled by the franchisor.

Question: What involvement would you expect from the franchisor in resolving problems encountered in running the franchise?

Answer: I would expect basic help in matters such as: advertising, behavior towards a new market. Merida has not yet opened a franchise branch in Finland so it would be a new experience for them as well.

Question: If you see improvements could be made to the environment in which you work, how determined would you be to change them for the better?

Answer: I believe that my good relations with Merida would be a great advantage for PURE. If there would be a possibility of improvement I would discuss it thoroughly with the franchisor and do everything in my power to change them for the better. Due to the fact that each country differs in its own way and is governed by distinctive rules I would be inclined to direct my company towards conducting business in a national way. Merida is a veteran in building franchise systems within Europe therefore, would adjust to conducting business in the Finnish market. I will be there to ensure that adjustment.

Question: What would be your reaction to do tasks, such as serving food or cleaning tables?

Answer: I see no impediment in fulfilling these types of duties. It has come to my attention and understanding that each business requires not only the investment but also the hard work to attain success on the market.

Question: In your present employment are you used to taking financial decisions?

Answer: In my current place of employment I am not inclined on making any financial decisions nevertheless, since I am going to be running a cleaning business with my partner all financial decisions will have to be made by us. Even though I lack the practical experience my studies have provided me with all the theoretical knowledge necessary to execute all financial decisions I will have to make. All that is left is to implement that knowledge into real life experience.

Question: Do you think you have the talent and skills that are required to market and sell your service or product?

Answer: I have previous experience with sales and was pretty good at it. I like dealing with different customers moreover, I have proven to be very convincing in the sales department in my former company.

Question: How good do you think you are at motivating staff?

Answer: In a scale of 1 to 10 I would place myself at the 8th level. I do not possess a lot of practical experience in these matters but I know that I am able to motivate people really well in everyday life my family members, friends and my business partner.

(All about franchising)

4.2 Self-evaluation tasks

Before making a decision whether or not to implement a franchise system into my own business I have to go through a couple of given tasks.

4.2.1 Product / service

As one of the tasks mentioned above I consider choosing what product or service I will include in my franchise system. Since PURE is going to be a cleaning service provider, the service I have covered but I lack the product. This is where I intend on implementing the franchise system. The franchise will provide PURE with a variety of products for my company and my companies customers. There are an assortment of goods I would be acquiring from my supplier, beginning with chemicals and ending on cleaning equipment. An example of the products are as follow: chemicals for every possible surface (ex. sanitary, floors, windows); cleaning equipment (ex. mops, squeegees, pads, gloves); bathroom equipment (ex. soap dispensers, paper towel dispensers); supplies (ex. soap, towel paper, waste bags, filters); other (ex. hand and hair dryers, waste bins, mirrors, toilet brushes, air fresheners).

4.2.2 Demand

To meet this task I have to evaluate the potential demand in the cleaning service and physical wholesale market where PURE will be operating.

In GRPAH 2 (page 9) I have presented the economical segmentation in Ylivieska. According to the graph, services and industries are the most occupied. As we all know, each industry and service place require cleaning. Cleaning requires proper equipment and chemicals. Each cleaning company has to resupply somewhere. There are companies which make their own products, but usually these are the biggest in Finland like SOL. There are also plenty of smaller cleaning companies which buy ready products from reseller. The biggest reseller in Ylivieska is Fintensid. They provide chemicals, equipment and other supplies from well-known brands like: Vileda, Curver, Kiilto, Karcher, Erisan, Katrin and many others. Fintensids stocks are large therefore, verifying that there is a huge demand for all equipment related to the cleaning industry. According to all my calculations Merida's products in compar-

ison with the products available on the Finnish market are comparatively low due to lower prices, difference in currency and exclusive technologies used only in Merida's products.

4.2.3 Investment

As mentioned before, I would be willing to invest around 2-3 thousand euro's at the start up point into the franchise business. Since establishing a franchise business with a Polish company on the Finnish market will be experimental, I would not be willing to risk my whole capital just for this purpose. I still have to keep in mind that alongside Merida's franchise branch I will be running a cleaning industry which will require investments as well. Considering the amount of money I am willing to invest into the franchise branch I expect to acquire as many different products available in the Merida catalogue as possible however at the quantity that my company will necessitate on account for, the need to evaluation the demand for each product in Finland.

4.2.4 Franchisor research

Conducting franchisor research as a franchisee is the foremost important issue I will have to cover. This point in question consist of a lot of information I have to process considering my franchisor and our cooperation. There are multiple tasks that need to be approved upon. These are as follow:

4.2.4.1 Experience of the franchisor and the members of his management personnel in business activity.

Merida is a company which has become a leader in the sanitary equipment and hygienic articles market in Central and Eastern Europe. Their network of branches covers Poland, Hungary, Russia, Lithuania, The Czech Republic, Ukraine, Slovakia and Latvia. Through their agents they are also present in countries like Belarus, Portugal and Uzbekistan. Merida pro-

vides its customers with high quality, durable products, free door-to-door delivery and professional service.

4.2.4.2 Current and planned number of franchisees

The current number of franchisees that Merida has established is 21. They are located in central Europe with most of them operating within the Polish borders. The sites that are placed in Central Europe are Russia (Moscow, Kaliningrad), Ukraine (Kiev), The Republic of Belarus (Minsk), Latvia (Riga), Slovakia (Bratislava), The Czech Republic (Hradec Králové), Hungary (Budapest) and Serbia (Beograd). Merida plans on opening a number of new franchisees which will amount to 25 at the end of year 2016. Merida would like to gain more franchise businesses in Russia. Since PURE initiated business talks pertaining to open a new franchise department in Finland, Merida begun mulling over the idea of entering the Estonian market as well. Currently Merida is conspiring for a possible franchisee.

4.2.4.3 Expected revenue

In accordance with our first negotiation talks I learnt that Merida will be willing to sell their products to PURE at a wholesale price with previously agreed upon discounts. However, to the negotiated price Merida will add a 15% franchisee fee for each product pertaining to the opening of their franchise department. In agreement with the calculations and market research done by me in Finland I have come to a conclusions that PURE would be able to sell Merida products 10% - 25% cheaper than the products currently sold on Finnish market. Alongside PURE would be collecting a profit of 10-15% for each product. This proves that engaging in a franchise business on the Finnish market is profitable.

4.2.4.4 Amount of the initial fee, fees paid in the course of cooperation

Due to well secured relations between PURE and Merida, an arrangement was made that PURE would not be obligated to pay any additional fees during the first year of mutual co-

operation. Merida considers the franchise business between our two companies to be experimental as well, therefore both our companies have assent with another to take a shared 50%/50% of risk. The only fees PURE is obligated to pay amounts to 15% of the total investment. Provided that during the first year of conduct the company proves to be a success, monthly fees of 3% to 5% of the monthly revenue will be collected.

4.2.4.5 Total investment

PURE when placing its first order is willing to invest from 2 to 3 thousand euro's still with the ending investment being revised. Calculations may vary due to the constantly changing list of products which PURE intends on introducing onto the Finnish market.

4.2.4.6 Scope of the assistance provided by the franchisor

With the very first order placed PURE will be provided with a free of charge delivery as mentioned before, here Merida will be taking a huge risk. Moreover, PURE will be provided with the know-how knowledge for the commercialization of the sold products. The know-how will consist of sales, marketing, and general knowledge of running a business in a foreign country.

4.2.4.7 Period of the franchise agreement

As previously stated, at first the agreement between Merida and PURE will be signed for the period of 1 year in order to determine if the attempt of opening a Polish franchise branch will attain an agreeable outcome for both companies involved. Afterwards, if the experiment confirms its successfulness on the Finnish market a meeting will be held during which PURE will hand over all the necessary information related to sales, revenue and a scope of the best-selling products to decide whether future cooperation will be allowed.

4.2.4.8 The conditions under which you request the extension or termination of the franchise agreement

During the first year of cooperation no amendments to the agreement will be allowed to be made. In view of the collaboration being exploratory and both companies taking a risk by discharging a new brand of goods onto a foreign market Merida and PURE established that an unchangeable agreement will be drafted in order to evaluate possible future profits. Once a possibility of expansion appears, after the 1st year of conduct a new agreement will be formulated with an updated set of terms which will be assimilated by both franchisor and franchisee.

4.2.4.9 The number of terminated and extended franchise agreements by the franchisor

During the past few years Merida has terminated only three contracts in Poland. The justification for the annulling of the contract with the franchisee was the replacement of the franchisees business with an official Merida department inside that region. All foreign franchisee agreements were extended.

4.2.4.10 Pending legal and administrative proceedings in which a party is the franchisor

At the moment, no ongoing legal and administrative proceedings have been taken up yet since PURE has not yet begun to operate on the Finnish market.

4.3 Model of the franchise

In the midst of my research I have come to understand that there are several models which a franchise business can be based on. The most suitable model for PURE would be Product Distribution Franchising. The justification would be that PURE would feel inclined to promote its own logo and trademark within the Finnish market while selling products offered

by Merida. In order to argue PUREs brand recognition in the Finnish market the logo and trademark of PURE have to be well entrenched within the Finnish cleaning service and physical wholesale market. The scope of PUREs business consist of establishing a cleaning industry and a product sales department. What is more, PUREs product sales department will be introducing brand new products that currently cannot be acquired on the Finnish market. That is why the Product Distribution Franchising model would adapt to PURE's strategy in every way. PURE will not be compelled by the franchisor Merida to operate under its logo and trademark therefore leaving PURE to advertise itself and gain acceptance and appraise within the Finnish trade. PURE will remain independent as a cleaning company and will only be bound to Merida as a sales point for their goods.

4.4 Complete concept of franchise

After concluding my analysis I was able to create a full concept of a franchise model for the business collaboration between PURE and Merida. The output built on the study can be found later in this topic.

4.4.1 Trademark

PURE is compelled to promote its own trademark in the sales department in there of brand marketing as well assign the cleaning services while implementing new products on the Finnish market. The Merida brand will be used on the product stands and on the products themselves were the goods will be sold. Pure will present its customers with a catalogue of all products Merida has to offer.

4.4.2 Know How

Merida will equip PURE with the necessary knowledge and information regarding all their products. The know-how will consist of the detailed data of each product. With each chemi-

cal PURE acquires Merida will give updated instruction concerning the composition of each product, safety issues, usage instructions and all certificates. In reference to the cleaning and sanitary equipment PURE will be learned as to the material used in the production, durability, usage instructions, ergonomics as well as outfitted with the certificates to these supplies.

What is more, PURE will be fitted with all the sales and marketing practices Merida has developed during its years of practice. This will help PURE adapt to the Finnish market. Moreover, Merida will share the gained experience in directing cooperation between foreign franchisees. Based upon all the above presented knowledge PURE will be able to form its own strategy for a franchise business.

4.5 Operating Manual

In this chapter I will provide a description of rules set between franchisor and PURE.

4.5.1 Introduction

The main intent of forming a franchise business with Merida is to introduce onto the Finnish market new products related to cleaning industries and sanitary equipment used everywhere in the world. PURE expects to determine market possibilities, prepare proper marketing tools for Merida products, display the efficiency of the products, and keep the franchisor up to date with the sale numbers. PURE may expect professional training related to the anticipated behaviour of the used goods as well as the performance of a franchise business on a foreign market. Furthermore, PURE will be supplied with all the products necessary certificates and information.

4.5.2 Franchise System

There are various mutual responsibilities and franchise components a franchisor and franchisee both have to agree to act in accordance with. In the case of PURE and Merida these are as follow: Additional fees. No supplementary costs will be asked for during the first year of co-operation. As agreed, PURE will test the acceptance and performance of the products on the Finnish market. After the first year a new agreement will be drafted to confront the present market circumstances; Restrictions of sales area. In consonance with the agreement, PURE is not limited to any specific region of distribution. Merida goods may be sold all over Finland. Although the main area in which PURE will be conducting its operations will be the Northern Ostrobothnia region; Restrictions on methods of operation. PURE has been given a free hand in the way it chooses to operate. No further or future restrictions are anticipated; Design and appearance standards. PURE is expected to use Merida's trademark and brand name only on the sales stands in PURE's sales departments; Merida is allowed to terminate the contract between our companies if the sales prove to be too low and therefore unprofitable. During the first year no other reasons give way to the termination of the formed agreement; a renewal of an agreement is possible after the first year of operating a franchise business on the Finnish market if the business confirms to be cost-effective. The duration of the document of concurrence will be assumed on the sale rates and their future predictions. A new agreement can be signed for up to 15-20 years.

4.5.3 Equipment

PURE has not yet provided Merida with an accurate list of specified products and their amount yet. Although, PURE can present a sample of products offered by Merida which are going to be sold in Finland.

All the products presented in APPENDIX 2/1 and APPENDIX 2/2 are just a few of many which will be used by our company as well as sold in our sales department. PURE has access to a full list of the group of products which will be introduced onto the Finnish market.

4.5.4 Organizational procedures

In order for the franchise business concluded between PURE and Merida to run properly there are several organization procedures that have to be addressed.

Days / hours of opening. For office and sales issues PURE will be open 5 days a week from 8am till 6pm. All other operations concerning cleaning issues will take place according to PURE's individual agreements with each customer.

Job descriptions detailing responsibilities for each employee. The sales office will be managed by Patryk Krzyżaniak. His responsibilities will cover marketing issues related to all products being used by the company as well as customer support and the preservation of PURE's business relations with Merida. The cleaning services will be carried out by Surya Yadav and Patryk Krzyżaniak simultaneously. Their duties will cover all cleaning activities provided by PURE. All accounting and legal issues will be managed by subcontracting companies hired for this purpose.

Staff training. At first PURE will be operating with 2 employees who have the knowledge (bachelor degrees in Industrial Management) and experience (years spent of working in the cleaning industry). No further training will be required.

Requirements for clothing and presentable staff. PURE is obligated to use protective clothes designed for the cleaning industry. All clothes will be marked with PURE's logo. Merida has not declared any restrictions as to the trademark from.

Recruitment procedures. Due to anticipated future expansion of the customer base, PURE intends on employing more cleaning workers to relieve the management (who at first will be the employees as well) of all duties associated with the cleaning labour so they can focus on running the company, the franchise business and attaining more customers. All recruitment

procedures will be carried out in accordance with the Finnish law. PURE will comprise a legitimate management protocol for human resources so as to position people with admissible qualifications with positions within the company best addressing their capacity.

Labor discipline. PURE code concerning discipline is clear and simple. Be on time, fulfil all your duties properly, satisfy the customer's needs, uphold the quality of the services provided by the company and do all that is required of you and agreed upon in the compiled list of assigned tasks. Employees who will not fulfil the above mentioned requirements will be discharged.

Health and safety requirements. Pure is well aware of all the health and safety regulations concerning the cleaning industry and will form a covenant of all of them and provide each employee and customer with a copy of the document. What is more, Merida will provide PURE with all the necessary information and procedures related to safe usage of their products and equipment. PURE has agreed to follow all the rules stated in the Merida's pamphlet.

Standard forms and procedures. All forms signed by PURE and Merida will be formulated in the Polish language by reason of Merida being a Polish company however, a Finnish version of all the documents will exist as well. For all legal procedures conducted within Finland and the drafting of documents and agreements PURE will higher official translator services.

Tasks and recommendations for the price policy. During the first year the price policy will be constant and no changes can be made. Merida will be selling PURE its products with the previously agreed price + 15%.

Supply policy with an indication of sources of supply. Merida will be supplying our warehouses according to the needs of our firm. Merida's main headquarters are located in Wrocław in Poland. All future products ordered by PURE will be dispatched from the above

mentioned location. The entire order will be delivered by a logistic company named DPD (Dynamic Parcel Distribution).

The quality standards of products. Altogether the products sold by PURE in Finland will have legitimate European certificates verifying their quality and legal permissions. The certificates will be forwarded by Merida.

Accounting. On the whole financial statements will be delivered by PURE on a monthly basis. These will consist of only the profit and loss account and balance sheet alluding to the franchise segment of the company. The financial records will be collected by the companies (PUREs) subcontractor.

Franchise fees. As indicated previously, for the first year the only fees that PURE will be subjected to will be the 15% from each sold product. Further fees will be discussed and taken into account after the first year of operating on the Finnish market.

Insurance. Merida certifies the quality of its goods and their delivery. If any delay or setback in delivery would take place Merida is compelled to cover the costs related to these unexpected occurrences. Furthermore, assuming that the quality of the product would not meet the anticipated standards or would show a defect in its appliance, Merida will replace these free of charge and will cover all the costs PURE would endure while using them.

Inventory control procedures. PURE's inventory will be supervised by a software called "Windward System Five". According to the spreadsheet reviews and the time PURE spent on testing the software it would be the most sufficient and adequate program to control our inventory. PURE would be able to follow up on the circulation of all the products within the list of stock on an operating system constantly being updated.

Advertising and marketing. The basic marketing strategies enforced by Merida on a daily basis will be transferred to PURE during the know-how activities. Although PURE will not be strained to apply the same sales and advertising techniques. Since the franchise business will not be operating in Poland, Merida is conscious of the different rules and techniques practiced abroad. That is why PURE has been handed the freedom of making its own choice in these matters.

Requirements for the use of a trademark by the franchisee and other distinctive signs of the franchise system. The only existing requirements for the trademark use are related to the products themselves, catalogues and brand recognition. PURE is bound not to make any alterations to Merida's products labels. The sales stand displayed in our offices is prescribed to exhibit the Merida trademark as well.

List of employees of the franchisor & phone book. A contact list of all Merida's employees will be handed over to PURE once an agreement is drafted. The list will include phone numbers to Merida's proprietor, the franchise manager, warehouse manager, and other representatives PURE would have the need of contacting during its set up of the franchise business and further collaboration.

Services provided by the franchisor. As stated in the exemplary agreement that will be formulated between Merida and PURE, Merida agreed to fulfil certain tasks related with the preliminary and current services. These are as follow:

Preliminary services. Merida will provide us with the following preliminary services: intensive training programs relating to a few aspects (products offered by Merida; marketing techniques; accounting and reporting; supplies management; the service of specialist equipment); help in the construction of the sales stand located in PURE's office; assistance in ordering the equipment needed in this industry; help in placing the order for the first product de-

livery; aiding in organizing promotional campaigns in connection with the opening of the franchise point.

Current services. PURE's franchisor, Merida, besides the preliminary services provides all its franchisees with current services: regular check-ups (via internet due to the distance between the companies) and advice from the franchisors representatives; research on new products (PURE will have access to all the new technologies invented by Merida); advertising campaigns and public relations organized for the entire franchise system (theoretical knowledge will be given); providing promotional samples for franchisees to distribute to possible clients and use in their businesses; the implementation of common procedures for comprehensive customer service (based on the Polish customer service system); allowing franchisees mutual exchange of experience by organizing periodic meetings, publishing newsletters or corporate intranet launches; the development of a common system for the entire website (PURE will upload onto its servers and website a full catalogue of products offered by Merida); development of a common system for the entire website (PURE will upload on its servers and website a full catalogue of Merida products).

4.6 Franchise fees

Owing to the experimental first year of conducting a franchise business between PURE and Merida both companies involved agreed to certain rules regarding the managing fees. Both Merida and PURE settled to take a mutual risk meaning that each company will cover the costs of conducting business depending on its function and task within the enterprise. PURE being the franchisee has taken upon itself to cover the costs of becoming an entrepreneur in this trade and all risks attached, purchasing the franchise products, marketing in Finland and preparing sale stands in its office. Merida risk covering the costs of the free of charge delivery issues (costs of delivery), providing PURE with its knowhow and the time spent on forming it, minimalist fees related with the business cooperation last but not least supplying PURE with the marketing samples and banners (free of charge).

4.6.1 Initial fee / on-going fee / advertising fee

In the interim of my research I have come to realize that there are three different fees a franchisee is compelled to pay according to the general franchise agreement. In PUREs case one out of all three fees will be paid during the first year of business. As settled earlier with Merida, the initial fee will be paid from the diverted 15% from each sold product (ex. net price + discount + 15% = product price for PURE). Furthermore, since it is almost impossible to estimate the amount of the final initial fee PURE will be committed to pay Merida has estimated that the initial fee will be comprised of the price of the product being sold plus the 15% diverted from the sale. After the first year of business is concluded and a proper turnover report will be put forth both Merida and PURE will discuss future plans for the franchise business which will include all commissions related with ongoing and advertising fees.

4.7 Contract

A franchise agreement is a contractual business agreement by which a firm grants an individual or company the rights to conduct business in a prescribed manner within a specified territory during an agreed time period in return for royalty contributions or other fee payments (Justis & Judd 2007).

Under the current Polish law the principle of freedom of contract each party may enter a franchise contract at his/her own discretion, if it's content or purpose is not opposed to the properties of the ratio law or principles of social coexistence. This way, the described principle of freedom of contract sets the boundaries of shaping the content of franchise agreements.

Due to the diversity of industries which are developing through franchising none of the franchisors is able to develop a universal franchise agreement applicable to all agreements bearing the hallmarks of the franchise. However, one can identify issues that should be included

in each contract of this type. They constitute the skeleton around which one can build the content of a franchise agreement.

The most common franchise contract begins with a Preamble, in which the contemporary situation of a business, the intentions of the parties and the ideas and values are set out. Based on these affairs a co-operation between the parties may be carried out.

Then, in order to systematize and better understand the content of the agreement the franchisor should post the definitions of basic concepts that are used within the document.

The subsequent terms describe the various stages of cooperation in such an agreement. One can divide them into three groups: the provisions relating to the conclusion of the contract, the provisions describing the rights and obligations of the parties during its duration, and provisions governing the causes and ways to terminate the contract. In order to properly construct a contract one should imagine the necessary steps that have to be taken, and then either conduct or terminate a cooperation. It is important to maintain the proper order of the provisions so as to form one logical whole - this will facilitate reading and understanding an agreement. There are issues which should be included in a professionally drafted contract: terms of joining the system, duration of the contract, the area of action of the franchisee, the rights and obligations of the parties, protection of trademarks and indications of network, protection of business secrets, competitive activities, training, license fees and marketing fees, promotion and advertising, permissions controlled by the franchisor, termination, minimum contract terms defined in the Code of Ethics for Franchising.

What is more, franchise agreements may contain additional provisions, for example on penalties, franchisor security debts, or fixing the obligations of parties after the completion of cooperation. The last element of an agreement are the final provisions stating most of the acts applicable to matters not covered by the agreement and the form of making the changes. (International Franchising Contract)

5 CONCLUSIONS

In this chapter all the data collected will be compiled followed by implications the franchise industry has on a new company.

The contemporary business environment is experiencing a crucial revolution due to globalization. In order to compete in these harsh business surrounding, firms are forced to look at their companies from an international point of view. Franchising evolved into a conventional strategy for business development, economic advancement and the creation of new jobs. Nowadays it is a broadly acknowledged an eminent way of conducting business. Franchise systems are present in most Industry sectors and have had a major economic effect on all of them. The market is a continually fluctuating new environment where companies have to understand the rules that govern it and make adjustment as they go.

This thesis was written with the intent of broadening the scope of a young company, PURE, which is just starting its existence on the Finnish market. As an entrepreneur and one of the owners of the above mentioned company I have been searching for ways of assuring that my firm will achieve success within the market as well as bring a reasonable profit. To ensure the goals set come to pass I have devised a solution for connecting two different fields the cleaning industry and product distribution by the means of a franchise business.

In the midst of the study of the franchise industry I managed to form a considerable association with a corporate company Merida (our future franchisor) what is more, to determine how the franchise system works and the concept of franchise. Considering the knowledge gained during my study and negotiation talks with Merida I was capable of preparing a concept base for the future cooperation of both companies. Furthermore, I had an innate capacity of conferring precedence's that PURE will have to act in accordance with and Merida's accountability towards PURE.

I collected knowledge regarding international franchise business legislation issues and liabilities PURE faces operating on the Finnish franchising market.

Summarizing, joining both cleaning company and franchise business will undoubtedly prove to be challenging for the two companies previously mentioned. Omitting this obstacle PURE and Merida are motivated and determined to make this cooperation work and for it to result in a constructive output with mutual benefits. What is more, the franchise system will furnish PURE with opportunities and the know-how it normally would not attain on its own therefore increasing its likelihood of thriving in the industry sector.

PURE aims at starting its cleaning service operations during the summer of 2016. Alongside a franchise system will be implemented in order for both enterprises to begin services simultaneously.

I strongly believe that this thesis has addressed all the doubts and questions I had as a beginning entrepreneur. What is more, it has given insight as to the wide range of franchising businesses operating within the franchise environment and the different aspects franchising encompasses. The entire research process and negotiation discussions with the firm Merida has helped me understand and become acquainted with all future challenges PURE faces during its opening stages.

I wish for myself and my business partner that one day all our hard work be rewarded in terms of running a successful cleaning business. Moreover, I wish for PURE and Merida to remain in good relations and for these relations to be cemented with mutual future benefits attained by a stable ascendancy within the Finnish market.

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Negotiations with Merida

Conversations with Monika Sawa, Head of Export Department, 25.02.2016, 12.03.2016, 30.03.2016

Issues that have been discussed during the negotiations:

- The possible franchising model for PURE
 - Output: Chapter 4.3
- Determining the variety of products that are offered by Merida
 - Output: Chapter 4.2.1 & 4.5.3
- Market research
 - Output: Chapter 4.2.2
- PURE investment into the franchise
 - Output: Chapter 4.2.3
- Research conducted upon Merida
 - Output: Chapter 4.2.4
- Franchise concept
 - Output: Chapter 4.4
- Operating manual
 - Output: Chapter 4.5
- Services provided by the Merida
 - Output: Chapter 4.6
- Fees
 - Output: Chapter 4.7

Merida TOP foam soap dispenser (DF3TM) - this unique dispenser offers the latest solution, soap dispensed as delicate foam, very efficient, over 2000 foam portions from one re-fill with soap, capacity of disposable pouches 700 ml, pouches with foam soap MERIDA BALI PLUS available, complete air-tightness of pouch prevents from contamination of contents, available in white color, made of ABS, lockable.



Merida TOP MEGA toilet tissue dispenser (PT0TN) - made of ABS, available in white color or maximum roll diameter (28 cm), lockable.



Electric Hand-Dryer STARFLOW polished version, activated automatically (EIP101) - nominal power 2300 W, sensor operated, steel cover (2 mm thick), available in two finish options: stainless steel with bright finish or satin finish, revolving chrome plated nozzle enables face drying, because of its big efficiency recommended for high traffic public washrooms, equipped with a power cord with plug.



SELECT+ electronic air freshener (OE3) - operates automatically, durable and high impact cabinet, effectively freshens air in areas up to 170 cubic meters, choice of several programming options: refill emptying period: 30, 60 or 90 days, hours of operation: 12 or 24 hours, days of operation: min. 5 days a week, LCD display showing battery life and days to fragrance refill, audio alarm, three year guarantee.

