

Franchising as a Business Trend in Batangas City, Philippines

Remuel A. Casabuena¹, Zhermaine M. Dipasupil²,
John Kevin L. Espiritu³, Rhona Ann D. Frane⁴,
Kriscia Shaira A. Montalbo⁵, Christine Leigh B. Remo⁶,
Hadge A. Encio

Business Administration Department,
Lyceum of the Philippines University, Batangas City, Philippines

¹remuel10@yahoo.com, ²zhermaine.dipasupil@yahoo.com,

³kevzz_13@yahoo.com, ⁴rhonaann16@yahoo.com,

⁵kriscia_shaira@yahoo.com, ⁶cl.remo@yahoo.com

Asia Pacific Journal of
Academic Research in
Business Administration

Vol. 3, No. 1, 25-31

April 2017

apjarba@lpubatangas.edu.ph

P-ISSN: 2467-6691

E-ISSN: 2467-5148

Date Received: March 1, 2017; Date Revised: April 9, 2017

Abstract - As years passed, franchising in Batangas boomed in different ways. As the franchise tends to grow, it experienced more problems regarding their operations. The researchers conducted this study to provide information for the people who want to engage in a business, but lack an idea for a company. Franchising can be an alternative business idea in order to run a proven business. It is less risky and has a lesser cost rather than opening an owned-business. This study will give readers some heads-up about franchising and the needed basic information. With this study, the researchers concluded that indeed, franchising is a well-known business in the city. For years, it continuously increased in numbers despite having a lot of competition in this line of business. When a person decides to franchise a business, success is a probability but not entirely guaranteed. With set of rules and limitations provided by the company, it may hinder the franchisee to innovate that may help them increase customer's attractions. But, not all things that are provided by the company will be considered bad. Support and training programs may be given by the franchise company, for it is included in the package.

It is highly recommended to choose a well-known brand to franchise for people tend to stay loyal to brands that they are comfortable with. Not all customers take the risk of trying new products. Also, a franchisee must plan carefully before entering into franchise. One must have the sufficient capital needed to operate the franchise and study the background first of the franchise they will engage into for them to be prepared for the consequences. Profile such as location and other important matters must be considered first before entering into franchise business.

Keywords: franchise, business venture

INTRODUCTION

One of the growing trends in the Philippines at present is franchising. History stated that franchising started way back in the thirteenth century. It grants the right to hold market and sell. Without the contract for the sake of legality which are important nowadays, franchising was quite simple as long there was a consent from both sides regarding the selling of products. In the United States, industrial revolution showed signs of success after engaging into franchising. They saw huge growth in transportation and communication systems by the beginning of the nineteenth century [1].

Costs and fees are inevitable for people wishing to engage into franchising up to this day. With franchising being one of the most trending business ventures, investments tend to get higher depending on what name, people are willing to risk money. One thing people consider is the return of investments (ROI), if it will return half or more than the investment, and how much time will it take to recover [1].

Kapoor [2] stated that "Franchise is a contract, agreement or arrangement whether expressed or implied, written or oral, between two or more persons ('Franchise Agreement') by which a party to the Franchise Agreement (Franchisor) authorizes or

permits other party to the agreement (Franchisee) the right to engage in the business of offering, selling, or distributing goods or services". Even with this granted right, limitations are still present such as to conduct business in accordance with the marketing, business or technical planning provided, the right to use a mark that is identifiable to public, and to provide support with regards to marketing, business or technical assistance during the life of the Franchise Agreement.

"Franchising is a promising venture given the country's growing consumer market and rising per capital incomes and rate of urbanization," stated by Samie Lim, Philippine Chamber of Commerce and Industry President. In 2007, the total number of franchise concepts; 43% are in the food sector, 28% in retail, 21% in services, and 8% are engaged in specialized services such as hotel services and memorial services [3].

Kapoor [2] focused on job satisfaction and if it does affect small businesses as well as franchise operations. He stated that characteristics of small businesses and franchising sectors are reflected in growth rates and contributions to the world economy. And in some researches, job satisfaction is an important implication for vital organizational outcomes. Franchise sectors focused on high level of satisfaction with their position within the franchise system.

Lacsamana, Bautista, Delmo, Humarang and Sales [4] found out that the most common problem encountered by the operation which was the high cost of repair/acquisition of computer spare parts. With regards to management, problems arouse while expanding the business with limited space and facilities [5],[6]. The researchers also considered the customers' perceptions as a vital material in knowing the success of an operation. According to the study, customers believed that having a signage is the best marketing strategy. Also, customers preferred affordable products and a better internet connection service of the internet café business.

Franchising is widely believed to have started with Albert Singer. In the Philippines, its roots also lead to Singer. Franchise was limited to foreign businesses until the Philippine Franchising Association was created in 1995. It only started with a total of a hundred and eleven (111) franchise concepts but gradually few to nine hundred and sixty-seven (967) in 2007 [3].

The researchers believed that this study would be beneficial to the continuous growth of business enterprise in Batangas City that would also enable

future entrepreneurs to engage in a business model like franchising.

OBJECTIVES OF THE STUDY

This study aimed to determine the trend of franchising in Batangas City, Philippines. Specifically, it aimed to identify the profile of respondents in terms of years of operation, reason for franchising and determining the percentage of the return of investment (ROI) in franchise; to determine the advantages and disadvantages of franchise operations, and problems encountered as to franchise recruiting and support, also with regards to legal aspects and compliance, and innovations of a franchise.

METHODS

Research Design

The study used the descriptive research design with a survey questionnaire to determine the profile of the respondents. Descriptive research design was used when the researchers want to describe specific behavior as it occurs on the environment. This study also aimed to provide a description of franchise, the status of franchising in Batangas City and its operation.

Participants

The study involved Franchise Stores in Batangas City, Philippines. There are hundreds of businesses opened in the area but a few known registered franchises stores in the city.

To limit the number of respondents, one (1) survey questionnaire was given to each of the franchise stores with the total of thirty (30) surveys for franchise operators.

Research Instrument

The researchers used self-made questionnaires for the franchise operators to get information about running the business, and another for customers to get their perspective about the retail store in their area. With such survey, it will not only give the researchers the information needed but it will also give the respondents to give their own opinion about the concept of the study.

Data Analysis

All data were treated using descriptive statistics which include frequency distribution and weighted mean. The respondents were asked to rate a series of statements using a four-point Liker-type scale. In

determining the perceptions of the respondents on franchising, the following scale was used 3.50 – 4.00 – Strongly Agree (SA); 2.50 – 3.49 – Agree (A); 1.50 – 2.49 – Disagree (D); 1.00 – 1.49 – Strongly Disagree (SD)

RESULTS AND DISCUSSIONS

Table 1. Distribution of Respondents According to Profile (N= 30)

| Years of Operation | f | % | Rank |
|--------------------|----|------|------|
| 1 up to 3 years | 6 | 20.0 | 6 |
| 4 up to 6 years | 11 | 36.6 | 1 |
| 7 up to 9 years | 6 | 20.0 | 2 |
| 10 up to 12 years | 3 | 10.0 | 3 |
| 13 up to 15 years | 2 | 6.7 | 4.5 |
| Others | 2 | 6.7 | 4.5 |

As seen in table 1, most of the franchise business is operating from 4 to 6 years with a percentage of 36.6 from the over-all assessment. A business running from 1 to 3 years and 7 to 9 years tied with a 20.0 percentage. A 10 to 12 years operation has a percentage of 10.0 and the 13 to 15 years and others tied with a percentage of 6.27. This shows that most of the franchises at this time of year are still new and there are only few operated more than 10 years.

According to Hansen [7] the average length of a franchise contract is ten (10) years. Also, the franchise is almost never a passive investment, the franchisee will invest their time and money in the franchise business which they are engaged, therefore their time and money is the sensible reason to invest in the business. This means that the franchisee will expect a higher rate of return.

As seen from Table 2, the over-all assessment of the respondents is “Agree” with a 3.34 composite mean. Among all the indicators mentioned, one reasons for engaging to franchise is the recognition of corporate image and brand awareness, which ranked first with a weighted mean of 3.50, rated Strongly Agree. Also, success from franchising has a higher guarantee because all franchise has an already-established system in place. Brand is another term for name and symbol or anything that identifies or differ goods and/or service from another, though a brand name is not a mere name. It continuously live and evolve in the hearts of the clients, especially those strong brand standing out in the market. Most franchises chose to franchise those with a well-known brand name.

Table 2. Reasons for Entering Franchise Business

| Indicators | WM | VI | Rank |
|---|-------------|----------|------|
| 1. Buying a franchise eliminates all the hard work: finding, negotiating a lease, hiring reliable contractors and doing all this on-time and within budget. | 3.23 | A | 6 |
| 2. There is a higher likelihood of success. | 3.40 | A | 2 |
| 3. The corporate image and brand awareness is already recognized. | 3.50 | SA | 1 |
| 4. It is easier to obtain financing for banks are usually very comfortable financing the purchase of a franchise for they have a proven track record. | 3.27 | A | 4.5 |
| 5. All franchises have an already-established system in place that you must follow designed to improve the overall productivity and increase sales of each franchise. | 3.37 | A | 3 |
| 6. Once you have become a successful franchise, owner the next step is to become a multi-unit franchise owner. | 3.27 | A | 4.5 |
| Composite Mean | 3.34 | A | |

According to Elgin [8], every good business developed a method in doing business that would provide prosperous results. Also, some of them provide guidelines in making their final decisions. He also mentioned that companies build a brand on a basis that would give customers attract a great value.

Respondents agreed that buying a franchise would eliminate all the difficulties which is the least reason in engaging into franchise (3.23). Another reason is that it would be easier to obtain financing because banks become comfortable financing someone with a proven track record. A franchisee planning to be a multi-unit franchise owner once becoming a successful franchisee is also a least chosen reason in engaging into franchise. Upon purchasing a franchise, it does not necessarily disregard essential activities such as negotiating a lease, hiring reliable contractors and etc. Compared to a start-up business, one would find it easier in securing finance for a franchise. It may cost less in purchasing a franchise rather than starting a business.

According to Hansen [7], one must think about what type of business interests a person and what type best fits their lifestyle. One step that could help is by browsing some franchising books and franchising websites that may help them identify some specific opportunities.

Table 3. Percentage of Return of Investment (ROI) in Franchising

| Indicators | f | % | Rank |
|------------|----|------|------|
| 10% - 20% | 0 | 0 | 5 |
| 21% - 40% | 3 | 10.0 | 4 |
| 41% - 60% | 8 | 26.7 | 2.5 |
| 61% - 80% | 11 | 36.7 | 1 |
| 81% - 100% | 8 | 26.7 | 2.5 |

As seen in Table 3, most of the returned investment from franchising ranges from 61% to 80%. No franchise had a return of investment of 10% to 20% only. A few franchises would have an ROI of 21% - 40% and the remaining number of franchises has a 41% to 60% and 81% to 100% of ROI. With these results, it is only proven that franchising has a high probability of success.

Elgin [8] noted that most of franchisor will surely agree that, over time, an average of 5% to 12% of return annually is a passive investment is good, and if they will get higher than that it is excellent. In most cases, the return of investment is usually smaller on high investment franchise opportunities than on low investment opportunities. The reason has everything to do with leverage. Diamonds are often comes in small packages. Typically, average earnings come first within three years of operating so franchisees carefully investigate in the business on that period of time.

Table 4. Advantages of Franchising Operation

| Indicators | WM | VI | Rank |
|--|-------------|----------|------|
| 1. It provides franchisee a certain level of independence in operating a business. | 3.10 | A | 4.5 |
| 2. It provides an established product or service which may already enjoy widespread brand-name recognition, support in training national, support in regional advertising operation procedures, and operational assistance and on-going supervision. | 3.50 | SA | 1 |
| 3. It requires less capital than other growth methods. | 2.60 | A | 6 |
| 4. The multiple locations increase the company's competitiveness. | 3.10 | A | 4.5 |
| 5. It is rapid in terms of expansion of new business. | 3.17 | A | 3 |
| 6. It increased the name recognition, and the advertising and marketing budget. | 3.30 | A | 2 |
| Composite Mean | 3.13 | A | |

As seen from Table 4, the over-all assessment of the respondents agrees with the advantages in franchising operations with a 3.13 composite mean. Among all the indicators mentioned, one advantage of franchising operations is the establishing product or service which may enjoy widespread brand-name recognition, supporting training, advertising operation procedures and assistance and supervision which ranked first with the weighted mean of 3.50, rate strongly agree. Another advantage, which ranked second, is the increase of name recognition, advertising and marketing budget. Third, the rapid in terms of expansion of new business, rate Agree.

Franchising business has made its own name in the industry, and that is one of the main reasons why most investors see a higher chance of earning a profit. Franchise can be an alternative when you are starting your own business. In an article, it is said that franchises offer the independence of small business ownership supported by the benefits of a big business network, such as training in how to operate their business model, and gaining access in national advertising and the on-going support [9].

The least among the advantages of franchising operation with a weighted mean of 2.60 is that it requires less capital than other growth methods, rated as Agree, followed by providing an established product or service which may already widespread brand-name recognition, support in training national, support in regional advertising operation procedures, and operational assistance and ongoing supervision and the multiple locations increase the company's competitiveness.

Elgin [8] emphasized that franchise companies have staff dedicated to provide ongoing assistance to franchisees. One can never be alone in franchising because the franchisee can rely to experienced people when encountering a rough spot or when sharing new ideas for growing business. When one start franchising a business, relying to other people, especially to the franchise company is not impossible. The franchisee can learn a lot of things also by observing another franchise. One key to be successful in the business industry is to be competitive. The franchise company has marketing assistance to provide you with proven tools and strategies for attracting and retaining customers. Usually, the staff helps in developing the actual marketing plans and budgets for the grand opening as well as the ongoing efforts to market the business effectively.

Table 5. Disadvantages of Franchising Operation

| Indicators | WM | VI | Rank |
|---|-------------|----------|------|
| 1. It requires to operate their business according to procedures and restrictions set forth by franchisor. | 3.47 | A | 1 |
| 2. It has restrictions encountered with products or services which can be offered, with pricing, and in geographic territory. | 3.23 | A | 3 |
| 3. It must pay on-going royalties and advertising fees. | 3.07 | A | 5 |
| 4. It must be careful to balance restrictions and support provided by the franchisor. | 3.30 | A | 2 |
| 5. It has limited duration of a franchise agreement. | 3.10 | A | 4 |
| 6. The franchisee have little or no say about the terms of termination. | 2.63 | A | 6 |
| Composite Mean | 3.13 | A | |

As seen from Table 5, the over-all assessment of respondents is that they mostly agree with the disadvantages provided with a 3.13 composite mean. Among all the disadvantages, the one that ranked first is that it requires operating their business according to procedures and restrictions set forth by franchisor. Second is it must be careful to balance restrictions and the support provided by the franchisor. The third is that it has restrictions encountered with products or services which can be offered, with pricing, and in geographic territory with a weighted mean of 3.23, rated as agree.

According Goldberg [9] buying a franchise means entering into a formal agreement where it dictates how they can run the business, and thus leaving a little room for creative ideas. Restrictions are inevitable especially on where you operate, products are provided together with the suppliers. When one franchisee would perform badly, it may affect other franchise's reputation.

The least disadvantage on franchising operation according to the respondents is that they have a limited duration of a franchise agreement which rank fourth with a weighted mean of 3.10 and rated as agree, fifth was paying royalties and advertising fees, with a weighted mean of 3.07 and rated as agree. And lastly, franchisee have little or no say about the terms of termination witch rated as agree and has a weighted mean of 2.63.

Entering franchise would leave no room for other ideas other than what the franchise agreement has

provided. Other than that, not all payments are provided or supported by the franchisor. Even though the franchisee would be buying the name and products, they had no right to do everything they want with it. No freedom will be given freely to a franchisee. It also indicated that buying a franchise means on-going sharing of profit with the franchisor [9].

As seen from Table 6, the overall assessment of respondents is "disagree", with a composite mean of 2.23. Among all the common problems encountered in franchise operation, the one that ranked first is that franchisees think that the best franchises are just like them with a 2.53 weighted mean and a rate of agree. Second is that franchisee believed that they are good trainers because they know the subject with a weighed mean of 2.43 and a rate of disagree. With a weighted mean of 2.13 and a rated disagree, the third are franchisee does not follow and develop system for recruiting franchise, and franchisor leaves the franchisee to fend for them

Table 6. Common Problems Encountered in Franchise Operation

| Indicators | WM | VI | Rank |
|---|-------------|----------|------|
| 1. We do not have a growth plan. | 2.10 | D | 5 |
| 2. We franchisees think that the best franchises are just like them. | 2.53 | A | 1 |
| 3. We are not developing and following a system for recruiting franchise. | 2.13 | D | 3.5 |
| 4. Employees forget all they had to learn and to go through in order to get where they are today; thus having no patience with franchisees. | 2.03 | D | 6 |
| 5. The franchisors are leaving the franchisees to fend for themselves. | 2.13 | D | 3.5 |
| 6. They believe they are good trainers just because they know the subject. | 2.43 | D | 2 |
| Composite Mean | 2.23 | D | |

One reason for the franchisees is not following and developing systems for recruiting franchise which is due to not reading, understanding, and asking questions about the disclosure document. While these documents are very long, what was written in it is very important and franchisees need to understand each item. The most common problems between a franchisor and franchisee is a misunderstanding of the

responsibilities. Franchisees should give the franchisor the benefit of the doubt and first ask its representatives to explain their understanding. The franchisee should list all of your concerns, and clarify which duties, obligations and responsibilities that belonged to whom [10].

The least common problems encountered in franchise operation are, they do not have a growth plan which rank fifth with a weighted mean of 2.10 and rated disagree. Employee forget all the things they learned and went through in order to get where they are today; thus having no patience with franchisee rank last, it get a 2.03 weighted mean and rated as disagree.

Another reason for the common problems are that the franchisee do not analyze the market advance [10]. While franchisor may help with site selection, it is still your responsibility to decide for yourself whether a particular location is desirable and promising. There are several things needed to be considered especially when competitors exist. Evaluating your franchisor's marketing strategy is also one way in finding the amount of advertising money intended to help.

Table 7. Legal Aspects/Compliance and Innovations

| | Indicators | WM | VI | Rank |
|-----------------------|---|-------------|----------|------|
| 1. | It creates a relationship that is all about the legal agreement and not considering the human partnership. | 2.50 | A | 2 |
| 2. | They make operating decisions that go against the franchise agreement. | 2.43 | D | 3 |
| 3. | They had not been consistent when implementing compliance systems. | 2.57 | A | 1 |
| 4. | They had the inability to let go of the day-to-day duties to take care of the future. | 2.33 | D | 4.5 |
| 5. | They kept focusing on what has been and what is, and not understanding the need to keep ahead of the competition. | 2.33 | D | 4.5 |
| 6. | They fail to embrace new technology. | 2.13 | D | 6 |
| Composite Mean | | 2.38 | D | |

As seen in Table 7, the overall assessment of all respondents is "disagree" with a composite mean of 2.38. Among all the legal aspects/compliance and innovations, the one that ranked first is that they had not been consistent when implementing compliance systems with a weighted mean of 2.57, rate agree. Second with a weighted mean of 2.50, it creates a

relationship that is all about the legal agreement and not considering the human partnership, rated as agree. The third in the rank with a weighted mean of 2.43, they make operating decisions that go against the franchise systems, rated as disagree.

According to Hansen [7] one of the pros in engaging into franchise is that the franchisee is in control of the business. Not just because the company is willing and providing support, they had to do all of these things. Not all of the rules and regulations provided by the company can be suited for the business. It may vary due to location and type of customer one franchise owner will have. Rules may be verified and reformed by the franchisee depending on the environment and community they reside.

Among the legal aspects/cone of compliance and innovations, fail to embrace new technology is the least with a weighted mean of 2.13, rated as disagree. Followed by inability to let go of the day-to-day duties to take care of the future and focusing on what has been and what is, and not understanding the need to keep ahead of the competition with the same weighted mean of 2.33, rated as disagree.

As mentioned by Goldberg [9], franchising, like anything, has its drawbacks. Though there is a high probability of success, it is not always guaranteed. If one run a sloppy operation, it affects the entire brand. That is why competition is a key. A franchisee must not settle for the mere success of the business in the past or present. One must look ahead to the future and plan for the better. As said earlier, being competitive doesn't mean you want to always win against the other. But it will help a franchisee to be in line and updated. Moreover, he also noted that peer support from fellow franchisees is an individual benefit of franchising. It is possible to have the same franchise but one is exclusively different from the other. Franchisees can share tips with one another, ask for help and gain experience from old franchisees. Another thing is that technology is rampant in this era. All businesses must take note of these changes, thus they try to embrace the evolutions, especially towards technology. Every now and then, a business will provide you services that may be of use for gadgets such as chargers and a lot more. Also, technology can be a way to advertise their products nowadays.

CONCLUSION AND RECOMMENDATION

With a hundred of businesses open and a few registered franchise here in Batangas City, majority of the franchise business in the city mostly operated for four to six years with the

reason that the corporate image and brand awareness is already recognized, and a Return of Investment (ROI) of sixty-one percent up to eighty percent. One of the advantages in choosing franchise as a business venture is that it provides an established product or service which may already enjoyed widespread brand-name recognition support in training national, support in regional advertising operation procedures, and operations assistance and ongoing supervision. For the disadvantages in choosing franchise as a business venture, it would be that franchise requires operating according to procedures and restrictions set forth by the franchisor. One of the most encountered problems in franchise businesses is when other franchise thinks that they are the same with the best franchises, and that other heads or in-charge with the franchise often thinks that they could do a better job in training people just because they know the subject, making them to reliable to their acquired knowledge.

The researchers recommend franchise as a good business venture for it is a trend in the city, can operate in long years, and has a high probability of returning a franchisees' investment. The franchisee may choose a well-known brand when deciding on franchising for it will give them a boost, and people tend to be more open and welcoming to known brands. Also, to avoid encountering too many restrictions, the franchisee must locate their business to where the regulations will go smoothly. Not all business guarantees' success so franchisees must be level-headed and try not to compare with others confidently. It may be the cause of one's downfall. The researchers recommend that when planning in entering a franchise business, one must have the sufficient capital needed to operate the franchise and study the background first of the franchise they will engage into for them to be prepared for the consequences.

REFERENCES

- [1] Pipes, K. (n.d.). *History of Franchising: Franchising in the Modern Age*. Retrieved from <https://goo.gl/3wIUpt>
- [2] Kapoor, S. (2000, August). *Roffle Peacock, Chapter 12, appendix A, Understanding Small Business: Practice, Theory and Research (2nd edition, 2004)*. Retrieved from <https://goo.gl/7OoaUb>
- [3] Calub, R. A. (2007). *What's Up In The Philippines*. Retrieved from Franchising in the Philippines: Progress and Prospects: <https://goo.gl/mZyuXn>
- [4] Lacsamana Bautista, Delmo, Humarang & Sales (2008). *Franchising of Internet Cafe Business in Batangas City*. Batangas City.
- [5] Barlan Jr, L. F. (2013). Status of Coffee Shop Business in Batangas City: Basis for Business Operation Initiatives. *International Journal of Academic Research in Business and Social Sciences*, 3(8), 351
- [6] Beredo, R. S., & Mendoza, E. (2013). Franchising Business Operation in Batangas City, Philippines. *International Journal in Management and Social Science*, 1(3), 1-6.
- [7] Hansen, R. (2012). *Quint Careers*. Retrieved from Franchising Pros and Cons: Is Franchising Right for You?: <http://www.quintcareers.com/franchising-pros-cons/>
- [8] Elgin, J. (2010, December). *Entrepreneur*. Retrieved from www.entrepreneur.com/article/188452
- [9] Goldberg, E. (2014). *Queensland Government*. Retrieved from <https://www.business.qld.gov.au/business/starting/business-startup-options/buying-franchise/advantages-disadvantages-buying-franchise>
- [10] Rule, R. C. (2011). *Inc*. Retrieved from 10 Common Mistakes of Prospective Franchisees: www.inc.com/articles/2000/01/14880.html