

FRANCHISING IN THE CZECH RETAIL MARKET CONDITIONS

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Abstract

After 1990 the transition from a centrally planned economy to a market economy was launched. Simultaneously with this process began changes in all sectors of the economy, including trade. The Czech commercial market started to show trends typical for standard market economies, such as internationalization, concentration and market dominance, growing competition and diversification of business risk, pushing the market to market globalization. Mainly foreign companies operating as a network of supermarkets, hypermarkets were involved in these trends. In retail and wholesale were significant structural changes. Domestic trader had and still has an uneasy position in this highly competitive environment. He is neither equipped with sufficient capital strength, nor with the necessary experience of the functioning of a market economy. In particular, small and medium sized businessman does not dispose of adequate competitiveness and desirable market information so that he could find his place and customers in this highly competitive environment. Therefore, attempts to create strong counterweight retailers through different vertical collaborations, such as voluntary chain, franchise chain or other similar alliances arise. The goal of this paper – based on brief theoretical discussion - is to present the results of secondary research, mapping franchising business under the Czech market conditions.

Keywords: cooperation, development in trade, cooperation in trade, franchising, small and medium-sized enterprises, transformation.

Introduction

The development of contemporary trade is accompanied by changes in business structures. These changes are influenced by the concentration of growth in trade in different countries and different intensities, increasing internationalization and globalization of trade, accompanied by the strengthening of positions of multinational companies. The power of large companies accumulates. These companies are in a dominant position which is strengthened by acquisitions and mergers. At the same time the commercial market operate small and medium traders who do not have easy position on the market, but their role is irreplaceable. They contribute to the diversity of retail, diversify the selection or traditional regional products and have the opportunity to establish a close relationship with the customer.

After 1990, this trend started to emerge in the Czech Republic. Model of CPE was gradually transformed into a market economy. Changes took place in all sectors of the economy, including trade and retail, where the changes were relatively rapid and significant. Foreign

retail chains with long-term experience with the functioning of the market entered the Czech market. Domestic traders had a difficult position, lack of capital strength and low competitiveness. Small and medium traders in the market could compete among each other, or vice versa they could cooperate. Various vertical cooperations may be a counterweight to strong competition with large foreign chains, among them dominates purchasing alliances, franchising and voluntary retail chains. The horizontal cooperation is dominated by shopping centers at the retail level. such cooperation also began to emerge in the Czech Republic, even though initial interest of them was low due to the historical context of the development before 1990 in the centrally planned economy.

A form of cooperation among business entities can be a variety of co-operation which have the character of both vertical and horizontal, or conglomerate. Classification under horizontal or vertical forms of cooperation in practical terms is often difficult, as the development of cooperation is accompanied by mutual fusion of retail wholesale. Purchasing cooperatives can be included in both the vertical and the horizontal forms of cooperation. To be included in one or another form of cooperation in practice, therefore, is based on individual assessment (Starzyczna, 2009).

We consider as the vertical forms of cooperation contractual agreements between the manufacturer and the trader, purchasing cooperatives and unions, voluntary chains, franchise chains and shopping headquarters. Horizontal cooperation can be further distinguished into the retail co-operation, where usually belong malls, cooperation at retail locations and networks. Into cooperation between the wholesale we include warehouse facilities and industry parks. The Synergy of production factors includes the type of cooperation outlet. We can state partners from different sectors as the conglomerate cooperation. We classify conditional, rebates, pricing, or rationalization cartels, or regional, or specialized quota among syndicates and cartels (Viestová, 2009).

This article aims to describe the theoretical basis of the concept of franchising and its basic context. The empirical part presents the main characteristics of the transition period after 1989 and the partial results of the secondary research, dealing with franchising in the Czech Republic. Secondary research will be the starting point, along with other sub secondary research to identify the subject of the primary research.

1. THE THEORETICAL PART

The behaviour of firms in the market is influenced by their competitors, spontaneous coordination of activities and contractual cooperation, either on horizontal or vertical level. Development of various forms of cooperative business enterprises, leading to concentration, is one of the hallmarks of world trade.

1.1 Co-operation in trade

How can we define cooperation? Generally, you can derive the concept of cooperation from the Latin word "cooper," which means to cooperate and help. Historically, cooperation evolved from simple cooperation in sweatshops based on division of labour, through cooperation of production in industry and agriculture to trade. In the current literature are approaches to cooperation in trade varied, although the industry has existed a long time.

Prof. Jindra and Pražská (1997) provide the following definition of cooperation: "Business cooperation represents an effort of private owners, respectively smaller companies to join together in order to get benefits similar to those of large integrated business enterprises." Viestová (2001) explains the concept of cooperation by the German catalogue Commission for the business marketing research as "any cooperation on a voluntary basis, as the contractual cooperation legally and economically independent companies to improve their ability to perform. "

Franchising chains are one of the more intense forms of vertical cooperation. The basis for cooperation is an agreement between the franchisor and franchisee. Franchisor as a company established in the market allows, under certain conditions to use their name, know-how and the sale of certain goods or services.

1.2 Franchising, its concept and definition

As regards the notion of franchising, there are different approaches to pronunciation and writing of the word. We can meet with the English "franchising" to which we tend, although this term is not originally from England, but from France. Some authors prefer, however, translated to Czech language version of the word, i.e. "franšízink" (as well as "franšízor" as a provider and "franšízant" as the recipient of the system). During the nearly twenty years since franchising is on the Czech market, you really can meet with many approaches, however, the first company which started to use Czech language version was McDonald's. The Czech form, for example, prefers Lenka Turnerová (2000) in her book Globalization and trade.

Characteristics of the franchising concept

Řezníčková (2009) states that "Franchising was originally known as the license agreement." Under the agreement, provided world-known company to another entity license for sale or represent itself under its own brand name. Later, the word "franchise" was in connection with a system that is designated as the franchising business. The word "franchise" comes originally from the middle Ages from the French term "franchise", which indicated the exemption from duties and taxes. Later this word was referred to the privileges that the king granted the right to produce figures of selected products or certain products traded on precisely defined territory. This definition is focused on the historical evolution and the origin of the term.

Mason, Mayers and Ezzel (1988) reported in the book *Retailing* definition of a franchise agreement as "a legal contract that allows the company the right to reach the development through using the methods, financing, brand and product to the recipients of franchise, after the fee has been paid."

According to the Czech Franchise Association franchising is a system of outlets through which is placed on the market goods and / or services and / or technology. It relies on close and continuous cooperation legally and financially separated and independent entrepreneurs - the franchisor and its franchisees. Franchisor provides its franchisees the right, and requires them to do business in accordance with its design (the European Code of Ethics).

Advantages of franchising

Business Benefits are seen mainly in the fact that franchise systems usually build manufacturers, trading companies, retailers associations, as well as progressive entrepreneurs in trade and catering services. Franchisors focus their efforts mainly on that of their products and services developed from its successful product: a successful and repeatable business concept. With this concept, which sells more, quicker and more efficiently achieve their goals and bring them another advantage. The benefits of franchising to the economy and society are manifested by the fact that everyone involved, whether the franchisor or franchisee, performs functions that best fit its market position, his personal skills and abilities. This means that all resources are optimally utilized. Recipe for successful franchising is very simple and effective. Practice shows that despite the difficult economic situation in each economy inevitably arise periodically and may well keep the franchise systems on the market and still prosper and grow (Franchising v České republice, 2008). For a franchisee participation in the system, it is easier to enter the market and start-up phase and subsequently in the marketplace. He can gain marketing and operational know-how of the franchisor. Although the franchisee needs to start a business some initial capital, but significantly lower risk of franchising in the franchise system allows him to gain better access to credit, leasing and insurance (Franchising v ČR, 2011).

Disadvantages of franchising

Franchising can also have their weaknesses and risks that bear both franchisors and franchisees. For the franchisee, it may be a higher initial cost of building a functional franchise headquarters and testing the viability of the franchise concept. In building and expanding the network is necessarily desirable and very difficult to select new franchise partners, because one franchisee that does not follow the expected quality may damage the reputation of the entire chain. Franchisee must respect the rules and accept the central interests of other members of the scheme. For the know-how provided by the franchisee must usually pay a share of profits or turnover. It depends on the nature of franchise contracts. To exit the system can be difficult for the franchisee, as the franchisee is also dependent on the franchisor.

1.3 History of Franchising

Today franchising is essentially not much different from the provision of the original medieval feudal privileges for the manufacture or sale, today called franchise, concession or license (Český institut pro franchising, 2012). These were the lease rights to the business and the manufacture, distribution or provision of services.

The United States are considered to be “the cradle” of franchising. Already in the late 19 century (1899), Coca-Cola started to provide franchise licenses of pouring its drink. We can date the first significant expansion of franchising at the beginning of 20 century. Mass production was developed, which needed the mass distribution as well. The first wave of franchising began Henry Ford, who began with mass-production of cars that were affordable in the U.S. This led to new opportunities for travelling and transportation of goods; this formed network of shops with cars and with this associated petrol stations, repair shops etc.

The second wave of franchising was enforced after the World War 2nd, when the franchise expanded into Europe. At that time occurred in the standard market economies significant changes in standard of living of the population. The width, depth and range of goods increased due to increasing demand and volume of the production of consumer goods; the supply was more or less prevalent in the market. Commercial franchising as we know it today began to develop in the 60's of the last century in the world. In this context we can speak of a general expansion and intensification of internationalization of business activities that were affected by the liberalization of commodity and capital flows.

In the 60's and 70's of the last century were also a number of qualitative changes in growth of companies. Firms have moved from growth due to expansion of its own activities to the gradual takeover of other companies through mergers, the vertical and horizontal cooperation and to strengthen themselves due to the bank capital input. In addition, there could be also found franchising. In Czechoslovakia at that time there was a different economic model of the economy (centrally planned economy). Developments that took place in Europe and the world were different. It cannot be said that the Czechoslovak market at that time there were no qualitative changes in the development of the business market, but the trends, as took place in other market economies, were completely different from those in Czechoslovakia (Starzyczna, 2010).

1.4 Coexistence of different business groups in the market

Internationalization of trade together with market dominance, increasing competition and diversification leading towards globalization and market deregulation is associated with policies that allow free movement of capital, goods, people and services and the development of information and communication technologies that accelerate logistics processes and the sale of goods. Globalization is closely linked with multinational companies.

In business retailing chain have the dominant position in negotiations with suppliers and towards customers. Highly integrated retailing firms benefit from spatial and operational levels, and thus realize economies of scale. Accumulation of business experience confirms the validity of the curve based on the relationship between market share and return on invested capital. These arguments speak in favour of large companies and to the detriment of smaller ones, often because the customer appreciates better purchase terms and price of goods. Wholesale also allows the collection of goods using various discounts provided by suppliers (Starzyczna & Steiner, 2000). These trends are typical of recent years, especially for market development. Domination is currently supported by the existence of not only multinational companies but also large multinational business alliances whose members are usually those companies (e.g. Eurocooperation). Market dominance, as already mentioned, is closely associated with the concentration of trade and cooperative activities that represent opportunities for small and medium-sized enterprises, which also have their important place in the modern economy. They participate in generating values, offer working opportunities,

and facilitate the development of cities, towns and regions. Small and medium-sized enterprises were basically the foundation of the private sector in the trade.

For whom and for what business is franchising appropriate?

The market dominance and increasing competition are affecting conditions of business venture and fall oppressively upon small and medium-sized business companies. Their chances for survival may be in various forms of cooperation. That provide benefits realized what a great company. The system of franchise chains is currently seen as one of the most important means of maintaining small and medium traders in the market. Franchise chain may enter a voluntary chain, which means in practice blending different forms of integration and cooperation and strengthening of the position against the competition.

Franchise form can be used for both companies and individuals. It is used the most commonly in trade, services and cuisine. For expansion into new markets, especially abroad, there is an adequate method called master-franchising. Master-franchising overcomes the national territory; e.g. it is operated internationally (Franchising v ČR, 2011).

2. THE EMPIRICAL PART

For the development of franchising in the Czech Republic there were different conditions than in the standard market economies. Now, let us therefore only focus on a short historical excursion into our recent history, but mainly on current situation and developments.

2.1 Transformation of retail trade in the Czech Republic after 1990

At the end of CPE Czech economy was considered as highly monopolized. State concentration of trade was not a natural process of the market, but administrative matters of the CPE. Commercial enterprises possessed land and assortment monopoly. The December 31, 1989 was the last comprehensive statistical survey of the Czech Statistical Office in collaboration with the Ministry of Internal Trade, which confirmed that in Czechoslovakia were only 389 commercial enterprises with an average number of 1,610 employees (Starzyczna & Steiner, 2000). The centrally planned economy with its economic model of national economy differed from those in the standard market economies. The trade lost its prestige and the private sector was disposed. Command economy was characterized by a contradiction between the nominal and the real system of functioning. The role of the state was strongly centralist with the release due to reform efforts (eg, in the second half of the 50s and 60s).

The market was replaced by a plan. But we might describe Its functioning as a modified "market of producer" in terms of the command economy and unrivaled environment. Although, retail network together with the former German Democratic Republic were one of the best developed, its density was insufficient. Decrease in the number of sales units was not accompanied by operational concentration, as it was in the standard market economies. The share of large units (department stores, shopping centers) was low. Some forms of sales were

completely missing. Non-store retail sales areas slowly developed. As a positive can be regarded development of supermarkets, which have contributed to the improvement of the purchasing conditions of the population (Starzyczna, 2010).

In an economic environment that is closely linked to changes in the internal trade, was at the beginning launched transformation the change of the relationship of the market values (1991 - price liberalization) and the change of ownership, small and large privatization, restitution (privatization production of consumer goods, internal trade, and foreign trade). there were often gaps In the legislative security of privatization, because the institutional framework for a functioning market was created with the delay. The way of small privatization has led to immense atomization of retail network. In the first half of the 90s first foreign chains that take part in the first commercial network of former state enterprises entered the Czech market, and then begin to build their stores on „scratch."

The general trends in business began to promote with their existence. Number of stores grew, accompanied by intense modernization, new forms of sales and new types of retail stores and wholesale warehouses appeared. A period of expansion of retail space and improvement of the utility of standard retail network began. Gradually reduced the backwardness of trade behind the developed economies, which is the result not only of historical development, lower economic performance as the main source and level of household final consumption, lower professional management of Czech companies and lack of capital of Czech companies, the initial spontaneous changes and the informal economy (Starzyczna, 2011).

In trade, general trends associated with internationalization began to show, increasing competition, market dominance and globalization. For domestic trade, this meant strong competition from abroad, the difficult position of indigenous entrepreneurs nowadays virtually of all sizes and demand of building relationships with customers. Let us look at the two most significant trends (internationalization and market dominance), which had an impact on the status of domestic traders and SMEs. Many major foreign companies entered the Czech market in the early period of transformation. Intensive expansion occurred in the 2nd half of the 90s and it was influenced by the attractiveness of the Czech market, a relatively good purchasing power of the population, for European firms' geographical proximity and similarity of product offerings.

Expansion of foreign retailers into new markets in Central and Eastern Europe was also supported by restrictions on their domestic markets. Foreign companies gain new markets for their goods. Degree of internationalization was relatively high. Foreign retail chains acquired the TOP 10 Czech retail share of 94.1% (in 2009) within the achieved turnover and TOP 50 it was 82.3%. The expansion of foreign companies has been accompanied by the sophisticated marketing and sales know-how that have received long-term effects on a variety of global markets. Domestic firms had less capital, material and material facilities affected by the previous economic model of the national economy.

Lack of capital and difficulties in obtaining credit was felt by Czech companies as inequalities of business. To do this, they added even more problematic debts and debts due to methods of privatization (Jindra & Kašpar, 2001). A weakness of the domestic merchant was lower

professional management, failing to increase the size of a company, but also borrowing without a thorough analysis of custom options to pay. The lack of experience of domestic companies with operations in the conditions of market economy, the low level of use of marketing, which appears without buying objects made territorial and market analysis, foreign chains accounted for less competitive strength.

Czech firms gradually acquired and acquire international experience with the functioning of the market economy. Despite the fact, the dominant position in the market gained foreign chains that had the advantage of a strong capital base, which provided them the parent headquarters. It is estimated that in the 90s, the market in the Czech Republic transformed from a market of producer to the market of consumers (Krásný & Kuchař, 1999). Competition intensified and the concentration trends promoted. Market shares of retail chains in the Czech Republic continued to grow and grow, especially within the grocery store. They still do not reach the European and global levels of concentration (Jindra, 2000). European business is generally characterized by its dramatic spatial and operational concentration and rapid growth of internationalization. the share of the 10 largest companies in fast turnover goods sales very intensively developed in the Czech Republic (66% in 2010).

Transformation of Czech trade was associated with significant changes in the structure of business networks. Many of them were initially only estimated, because until 1998 there were no complete official data concerning the development of statistical service retail network. The first half of the 90s were characterized by atomization of the retail network, which led to small privatization and ongoing restitution, as already mentioned. This situation meant basically non-existing competition for foreign chains. Large-scale privatization supported the disposal of existing distribution relationships especially at the wholesale level.

Foreign firms have begun with the operation of supermarkets, discount stores, hypermarkets and later shopping centers. Foreign Trade Companies, which entered the Czech market, made primarily organic growth strategy, as the Czech retail market did not belong to the developed markets at the beginning of the transition, but to emerging markets with the absence of most advanced types of retail units. Purchase of existing networks was therefore problematic. Although the commercial business environment is relatively liberal, the implementation of this strategy was faced with considerable problems related to bureaucratic procedures, especially in obtaining building permits and land often associated with chaotic and fragmented ownership structure.

The development of franchising helped to the expansion, even though the interest of domestic firms was not great. Franchising settled mainly in the sale of clothing and textiles, footwear, cosmetics and fast food. Domestic firms belonged initially mainly to small and medium business. Later, their position stabilized and companies grew, developed and modernized their operations and gained significant market positions (especially at the wholesale or retail tobacco with electronics). This statement does not change the fact that the Czech market is dominated by foreign retail chains, which are not easy to compete with, and therefore come various forms of cooperation and franchising among them.

2.1 The development of franchising in the Czech Republic

The American franchising company McDonald's has penetrated the Czech Republic in 1990, which was due to a history of the Czech economy and the transition of our economy from a centrally planned economy to a market economy since 1989. The development of franchising was therefore initiated with the first entry of foreign companies and franchise systems to our market.

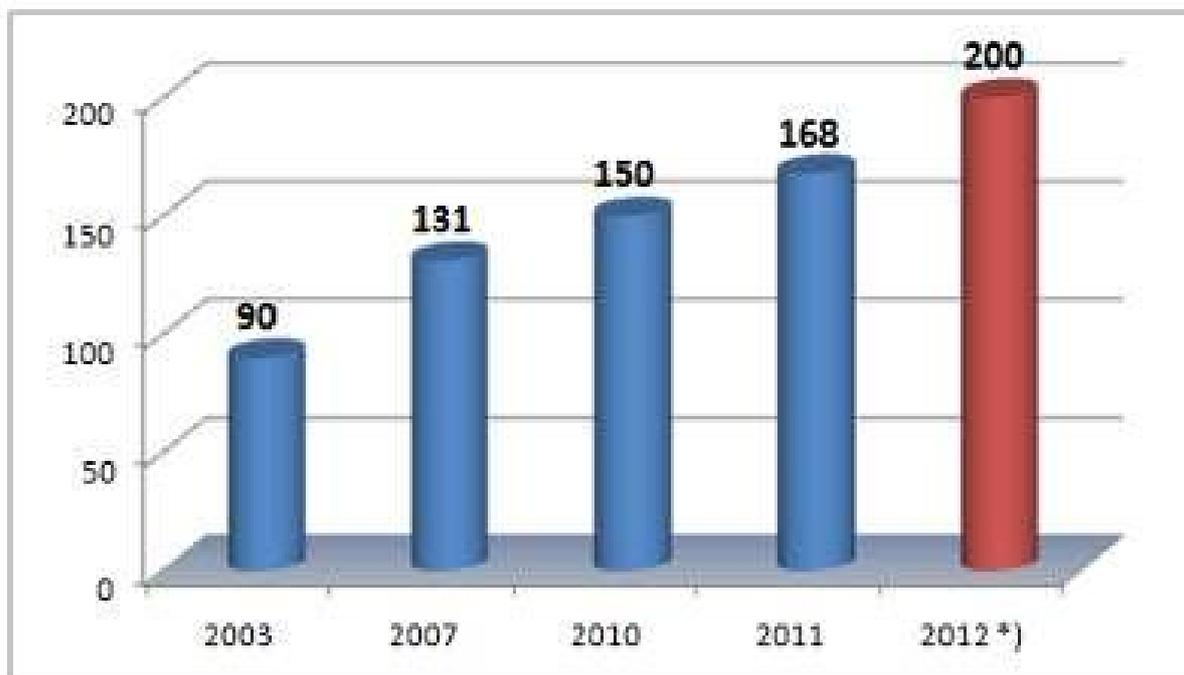
A more rapid expansion and application of franchising was hampered by insufficient knowledge of its operation and thus a certain distrust of franchising among entrepreneurs. We lacked a sufficient supply of and demand for professional seminars, literature and appropriate advisory services specialized in franchising (Franchising v ČR, 2011). Distrust between entrepreneurs also had its historical roots. Entrepreneurs after the experience of the centrally planned economy, when many lost their possessions, had an aversion to any form of cooperation. Other important factors that influenced the slow development of franchising in the Czech Republic were problems of financing, underdeveloped entrepreneurial culture in the Czech market, imperfect legislation and legal awareness, quality management, lack of know-how and experience with this form of business cooperation. So these were all characteristics that are generally related to business development and creating a serious business environment in transition period. At the turn of the 80's and 90's the number of franchisors in America was around 33% of the total number of retailers (Mason & Mayer & Ezell, 1988). In the 90's franchising was already in full bloom in the world, the first franchise chains come to the Czech Republic from abroad and just little later arise from local entrepreneurs (see Table 1).

Tab. 1 - Example of domestic franchise chains. Source: Yearbook of the Czech and Slovak trade in individual years.

Franchise chain	Year
SVOP	1995
Retail network Bala	1996
TETA Drugstore	1996
Brněnka Retail Network, Ltd.	1997
ENAPO BUSINESS OJSC	1998
FLOP JIH Co.	1998
Euronics CR, OJSC	1999
Retail network Hruška, Ltd.	2000
CBA Team Czech Republic	2002
HELE HOME CREDIT	2004

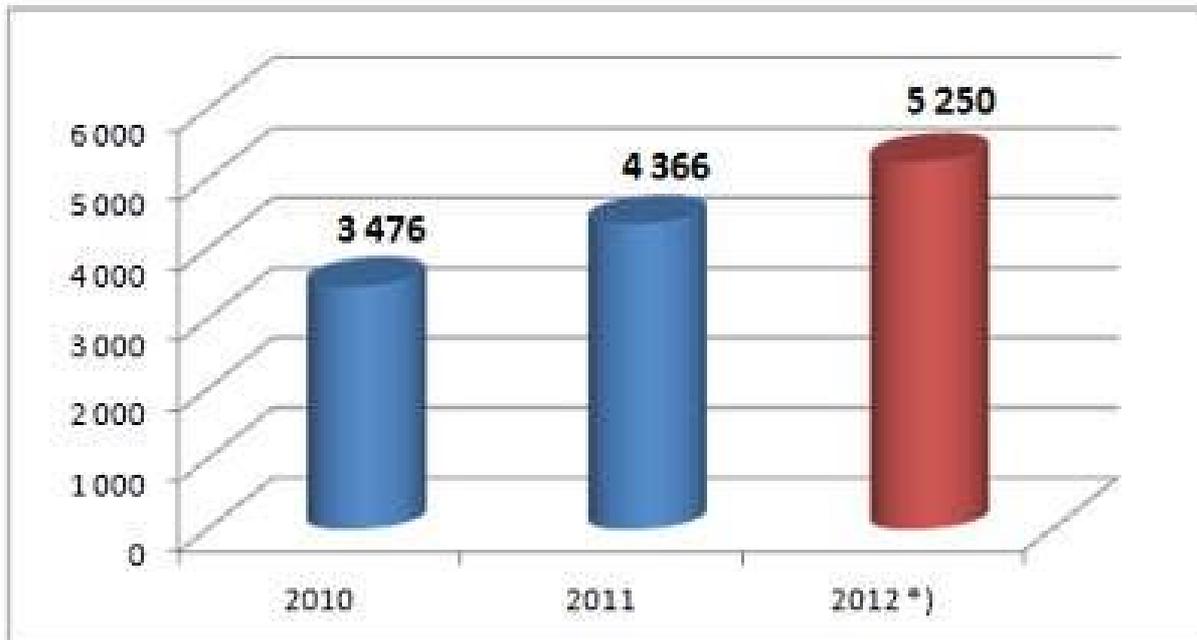
Let us look at some specific figures available for franchising in the Czech Republic. To get these specific numbers is not easy because, as confirmed by Czech Franchise Association, most networks are not willing to state their own data concerning the turnover or the amount of fees; many of them are not willing to give even the duration of the franchise agreement. This concerns not only new or domestic systems, but also some advanced foreign systems. From the first comprehensive report on the state of franchising in the Czech market (1. Zpráva o stavu franchisingu na českém trhu, 2011) on the basis of information from public sources (internet, newspapers, promotional materials, exhibitions) a group of 90 franchise concepts already existed in 2003, in 2007 it was a group of about 130 franchise concepts; or concepts, which showed some signs of franchising. Of this group was approximately 50% of the concepts of service and 50% of business concepts. The services were represented mostly by restaurants, fast food concepts and real estate agents. The rest of service concepts were represented by concepts in the field of hotel business, tourism and car rental, construction and home renovation, hairdressing, beauty and spa services. The business concepts were mostly represented by sales of fashion and textiles, also well represented by concepts and trade in cosmetics and drugstore, DIY concepts (Do It Yourself - is a kind of culture in which the man himself, without professional support, makes a useful product that serves him or other people) . In 2010 there were in Czech Republic about 150 franchise systems. In comparison with the year 2003, there can be seen visible growth. This development was graphically illustrated in Figure 1 below. Between 2003 and 2010 can therefore be seen nearly 67% increase in the number of franchise systems. Currently 168 franchise brands are active in the Czech retail market; that is 12% more than last year. The number of franchise branches increased, from 3476 to 4366 - it is an increase of 25.6% in comparison with 2010.

Fig. 1- Number of franchise systems in the Czech Republic. Source: 1. Zpráva o stavu franchisingu na českém trhu 2011.



In 2010 thus 2029 franchisees owned a franchise license to 3476 branches. Franchise concepts opened their own establishment at least (Franchising v ČR, 2011). Their interest is primarily to acquire new franchise partners, who will open a new establishment. Characteristic is also that they prefer one franchisee to have only one establishment. As mentioned above, the number of franchise branches increased, from 3476 to 4366 - it is an increase of 25.6% in comparison with 2010.

Fig. 2 - The number of franchise branches Source: 1. Zpráva o stavu franchisingu na českém trhu 2011.



Franchisors, respectively franchise contract providers operate 100% of franchise branches or subsidiaries have their own section and part of the franchise. Overall, in 2010 had franchise systems 8,552 branches, including franchise affiliates represented by approximately 40.6% interest, wholly-owned subsidiaries (5076), then 59.4%.

During 2010 there was also a compensation for such number of foreign and domestic networks on the Czech market; the percentage difference between the two values was just really minimal. It could be divided into concepts originating from the Czech Republic and abroad in the ratio of approximately 1:1 (Franchising v ČR, 2011). The number of domestic franchise systems was 73, and 77 foreign (1. Zpráva o stavu franchisingu na českém trhu, 2011).

Tab. 2 - Franchise by sectors according to the absolute and relative frequencies (2010).
Source: 1. Zpráva o stavu franchisingu na českém trhu 2011.

Allocation of sectors	Absolute frequency	Relative frequency
Services	93	62
Gastronomy	29	31
Real estate services	20	22
Services for individual customers	13	14
Tourism Services	10	10
Health & Beauty	9	8
Education	7	5
Banking & Financial Services	5	5
Trade	57	38
Clothing & Footwear	19	33
Health & Beauty	13	23
Housing & Building	11	19
Foodstuffs	10	18
Other shops	4	17
Total	150	100

If we look closely at the mutual representation of trade in 2010 in the sector of services, it was confirmed that the total number of systems dominated by services (62%) above the trade (38%). On the market were active 93 franchise systems in service and 57 in the trade (see Table 2). Generally considered to build a business network is easier than building a network of services, nevertheless trade reached a lower share. It can be expected that in future franchise systems in trade will develop more intensively, as it is abroad. Franchising in the domestic market was dominated by the Czech companies in 2011. The number of domestic companies was 93, which was 55% of all franchise companies. It was a large change in comparison with the previous year – 73 domestic companies out of 150, which represented (49%). Franchising in Czech retail market enters into a new phase in which domestic companies begin to dominate. It is a sign of maturing franchising sector in Czech Republic. In developed countries, but for example in Poland as well, the share of domestic subjects is more than 70%. It can be expected that in future franchise systems in trade will develop more intensively, as it is abroad. Franchising was widely accepted by the market of Czech Republic. It can be assumed that in the Czech Republic will soon operate more than 200 active franchise companies.

A third of all franchise concepts in the Czech Republic is operated for more than 10 years. It's not just foreign systems, such as Mc'Donald, OBI or Yves Rocher, but also domestic systems, as already mentioned in Table 1. Business under a foreign brand is connected with a higher degree of stability. Krajča (2011) says that franchising means in the global economy a way, confidence and ability to concentrate effectively finance, marketing people onto successful projects. Active participation of Czech franchise systems and the growing interest in franchising also shows that franchising was, as one of the possible forms of business, widely accepted by the market. It can be assumed that in the Czech Republic will soon operate more than 200 active franchise companies.

Conclusion

In the first half of the 90s first foreign chains that were more or less successful began to enter the Czech market. First, they took part of the business network of former state enterprises, then began to build their stores to "scratch." General trends in the business began to promote with their arrival. The course of the transformation process was influenced by the following factors:

- initial atomization of domestic trade, caused by the way of privatization,
- disintegration of distribution networks
- poor organization of Czech traders who lost influence on the production sphere,
- weakened position of cooperative trade
- barriers to the development of the domestic markets of foreign chains,
- attractiveness of the Czech market (small economic barriers to entry to the Czech market, lower costs compared to Western European countries, geographical proximity, small cultural differences ...)
- weak domestic firms, especially the lack of capital, material and material facilities, lack of experience of the functioning of a market economy, the underestimation of marketing management
- strengths of foreign companies own proven know-how, long-term experience in working in conditions of market economy, etc.

The above mentioned facts evoked the need for cooperation and strengthening of the position of domestic traders. In the last few years in the Czech Republic franchise business based on license agreements experiences rapid development. In 2010, around 150 franchise systems functioned in our area. A few years ago the number was about 130 franchise systems (in 2007) and in 2003 it was even only about 90 systems of this kind in the Czech Republic. 168 franchise companies and 4366 branches were active in Czech retail market in 2011. Not only are the systems that come from abroad taken into account. More and more domestic entrepreneurs begin to establish themselves in businesses, for whose the franchising provides opportunities for further significant development of their business while it means opportunities for smaller businesses. Former domestic business distrust to any form of cooperation, resulting from the historical context, seems to be over.

Sectors of Beauty & Fitness rise and the number of branches still increases. Gastronomy falls and the number of branches decreases as a result of economic recession. Franchising in the domestic market was dominated by the Czech companies (55% domestic vs. 45% foreign). However, due to ongoing globalization, along with raising utilization of the "tax paradises'" advantages by originally Czech entities, according to our opinion, division of franchise systems to foreign and domestic loses on the relevance. Most systems are recruited from area of restaurants, cafes, tearooms and fast food. An important group consists of the systems in the field of housing and hobby. Franchise operating in the sector of services occupies about 62%, the remaining 38% falls within the business sector. Another interesting figure is that more than half of the systems in our country have been existed for less than ten years. It is obvious that the development of franchising in this country really began only a few years ago. Some systems that are enough original, even already decided to expand beyond the borders of the Czech Republic. In the future we can expect more intense development of franchising as it is actually advantageous form of business which (especially for small and medium-sized enterprises), although not significantly with a long historical tradition, is still proved by the years of successful operation in the standard market economies. To the development of franchising will help also the fact that recent increases in knowledge and awareness about this

business perspective, dynamically growing and expanding business worldwide, to which contribute as well the activities of the Czech Franchise Association, their members, but especially franchise consultants who are members of the Association. The media increasingly report on franchising business, as well as internationally operating franchise web portals.

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