

CHAPTER I

INTRODUCTION

It would be difficult to imagine a day going by in either our personal or business lives during which we did not interact with a franchised business.

On a personal level, we can buy our home, cars, mobile phone, food and our clothing from franchised stores and offices. We drop off our vehicles in the morning to franchise automobile service centers and our clothing for laundering at franchised dry cleaners. We plan our vacations with franchised travel agencies and enjoy our vacations and recreation at franchised entertainment facilities and health clubs. Children can have tutored course at franchised offices which nationwide.

At the business level, we can contract for temporary help cleaning service, printing, accounting, computers, automobile rental, video production, interior design, coffee and tea, catering, and courier services from franchised companies across the country.

Franchised businesses now account for well over eight million jobs in nearly 100 different industries. From a global million jobs in nearly 400 franchisors have sold franchises abroad, accounting for over 32,000 overseas locations in markets as diverse as Thailand, Japan, Africa, Israel, France, and the Caribbean. Franchising has achieved a phenomenal growth rate in the U.S.A., Japan and many countries. Currently, it is becoming increasingly popular in Bangkok and other major cities of Thailand.

A franchising is a specific method of distributing goods and services. There are two groups of player: franchisors and franchisees. A franchisor is the one who owns the right to the name or trademark of the business. The franchisee is the one who purchases the right to use the trademark and system of business. So if we were to invest in a franchise, we would be known as a franchisee.

There are several trends, some good and some not so good, that will affect the growth of franchising in our economy as we approach in the new century.

1.1 Statement of Problem

According to the booming of retail business in Thailand encourage the higher competition, which cause the difficulties to small business, especially the sole proprietors and threaten their survival. It is difficult for one man to manage all the specialized knowledge required to run a business successfully. The core knowledge is managerial ability to plan operations to assess the market, to measure competition and to maintain a proper balance between operation and improving the business. This lead to some forms of collaboration to raise competitive strength and economy of scale. Franchising is an effective solution for the new entrepreneur.

Franchising is a system for the selective distribution of goods and/or services under a brand name through franchised outlets owned by independent businessman, called "franchisees". Although the franchisor (the owner of the brand name) supplies the franchisee with know-how and brand identification on a continuing basis, the franchisee enjoys the right to profit and run the risk of loss.

The franchisor controls the distribution of his goods and/or services through a contract, which regulates the activities of the franchisee, in order to achieve standardization.

There is controversy exist against the entrepreneurs. Traditional industry organization theory holds that franchising creates local monopolies and reductions in consumer welfare. In the newer view comment that franchising is seem as a means of maintaining desirable levels of service and quality that are in the interests of both sellers and consumers.

Despite the fact that franchising is an increasingly popular device in distribution of products and services in Thailand, there have been few attempts to study its comprehensively or from an economic viewpoint. The controversy exists between economists over the benefits of franchise in Thailand, some argue that it worsen Thailand's balance of payments (according to franchisee's payment to franchisor for the initial fee and/or royalty fee, as well as the payment of equipment and input). However other economists consider franchising as a transfer of technology in the managerial skill and the franchisor's marketing expertise and these will be beneficial for Thais.

This study does not intend to pass judgement on the aforesaid controversy, but will convey deeper understanding of reason why franchising is becoming a more and more popular business alternative. Another crucial task of this study is to deeply analyze the key factor of success franchisee in Thailand. Case study of The Pizza Public Co., Ltd., franchisee of Pizza Hut in Thailand.

¹ Robert M. Rosenberg and Madelon Bedell, Profits from Franchising, New York: McGraw-Hill), page 41.

1.2 Objectives of the Study

The main objectives of this study are as follows:

1. To study background and current situation of franchise business
2. To analyze the advantage and disadvantage of franchise from both the franchisor and franchisee's viewpoints.
3. To study and analyze key factors of success franchisee in Thailand. Case study of The Pizza public Co., Ltd., the franchisee of Pizza Hut in Thailand.

1.3 Hypothesis of the Study

The franchise system will be able to induce higher potential benefit not only to franchisee but also franchisor. Moreover, the capacity of both franchisee and franchisor are major key factor to succeed in franchise business.

1.4 Scope of the Study

This study will study the franchise system in Thailand market place from 1990 to 2000. Moreover the study will cover the topics of franchise's expansion and include analysis of The Pizza Public Co., Ltd. who is the success franchisee of Pizza Hut and many famous international brands in Thailand. This study has investigated the survey units located mainly in Bangkok Metropolitan area. The incompleteness of the survey data, most franchisors and franchisees did not reveal the information of franchise fees, thus the analysis fees cannot be done deeply.

1.5 Methodology and Data Sources

A qualitative approach will be involved toward the method of the study and analysis. Data come from both primary and secondary data. Primary Data come from interviews with franchisors, franchisees and consumer based on the questionnaire and observation research. Other data and information come from secondary sources published by both government and private organization.

1.6 Organization of the Study

The study is organized into six chapters. First chapter will present introduction statement, statement of problem, objectives of the study, scope of the study, methodology and data sources. Second chapter will describe historical background of franchising in Thailand from 1990 to 2000. Third chapter will include franchising theoretical framework, current trend in consumer behavior, advantage and disadvantage of franchise from both franchisor and franchisee's viewpoints. Fourth chapter will describe the key factor influencing success in franchising and fast food business, which included operating, financial, marketing and competitor analysis. Moreover, marketing research of Pizza's consumer behavior in Bangkok Metropolitan will also include in this chapter. Last chapter will present the summary and conclusion of this study.