

The economic importance of franchise Industry in Egypt

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Abstract: The emergence of franchise-oriented investment is considered as one of the invented business and investment techniques in line of the global trade, technology and knowledge transfer in order to be consistent with the world trade development, economic development, technology progress, information revolution and the world opening on each other at the age of globalization. The franchise system consists of three axes, namely franchisor, franchisee, and franchise accession. The system targets the increase of project size, expand its activity circle through granting license to a project or many other projects to sell products or provide services by following a particular business and investment form belongs to the licensed project. The world franchisor companies numbered about 15 thousand companies of which the United States participates by almost more than 4 thousand franchisor companies. The United States occupies the first rank in this field and has 1500 trademarks circulated according to the franchise system. Despite of the increasingly franchise industry growth rates in the Middle East which is estimated by about 27% , however, the industry available opportunities and potentials are still higher than the current growth rates due to the legislative, knowledge and factual shortage in the region around that concept, or what can be called as franchise illiteracy. Although the Egyptian market has several characteristics which enable it to become a suitable investment climate to attract local and world franchise industry, the franchise industry in Egypt is still very far from the standards. This negatively affects the Egyptian economy ahead.

Keywords: franchise Industry, investment , positive and negative aspects, Egyptian economy.

1- Introduction:

The global economic changes have recently targeted under the umbrella of the World Trade Organization the world trade liberalization through opening markets, eliminating barriers facing goods, services. They also have tended to adopt modern business and investment systems instead of the adopted traditional systems. The emergence of franchise-oriented investment is considered as one of the invented business and investment techniques in line of the global trade, technology and knowledge transfer in order to be consistent with the world trade development, economic development, technology progress, information revolution and the world opening on each other at the age of globalization. The franchise system has possessed, as being currently one of unlimited investment techniques, global system and modern management system, great importance in the whole developed and developing world countries. This is

attributed to the most sophisticated marketing, management, technology transfer, and expertise systems introduced by franchise in most of the large, medium and small service and productive sectors. The franchise system consists of three axes, namely franchisor, franchisee, and franchise accession. The system targets the increase of project size, expand its activity circle through granting license to a project or many other projects to sell products or provide services by following a particular business and investment form belongs to the licensed project. The franchise oriented investment system contributes to the economic and business development of for the franchisee. It successfully contributes as well to the training and employment of local labors, solve unemployment crisis and provide further employment opportunities. It lessens the flow-out liquidity ratio, increases investment in small and medium projects, stimulate local companies in order to be able to compete. This leads to the quality of service and product provided to the consumer and

contributes to exports increase and curbs the imported goods[1].

The technical knowledge (secrete technical information which gives its owner a competitive privilege over those who are not familiar with it) is considered as one of the most important elements included in the franchise system of which the franchisor is committed to transfer to the franchisee. It includes a group of technological, industrial, management and financial knowledge which the companies or individuals clandestinely preserve to ensure that they will not violated spread or transferred[2].

The world franchisor companies numbered about 15 thousand companies of which the United States participates by almost more than 4 thousand franchisor companies. The United States occupies the first rank in this field and has 1500 trademarks circulated according to the franchise system. Among each newly established projects a franchise project emerges. This system contributes about US \$ trillion dollars of the annual US gross domestic product (GDP). It provides almost 10 million jobs related to that economic field by 6% of the total labor. It annually helps create about 170 thousand jobs due to the spread and expanded effect of that system[3]. Notably, the franchise system is not only restricted to the world trade but is implemented within the internal trade in spite of its early international emergence.

2- Problem of the research:

Despite of the increasingly franchise industry growth rates in the Middle East which is estimated by about 27% and its contribution to the retail trade selling is expected to exceed 50% during the years ahead. The industry size valued \$ US 30 billion dollars. However, the industry available opportunities and potentials are still higher than the current growth rates due to the legislative, knowledge and factual shortage in the region around that concept, or what can be called as franchise illiteracy. Although the Egyptian market has several characteristics which enable it to become a suitable investment climate to attract local and world franchise industry, the franchise industry in Egypt is still very far from the standards. This negatively affects the Egyptian economy ahead.

3- The research Aims:

The study aims to spread the franchise system investment culture and make businessmen who want to adopt that system aware of its problems and obstacles that may lead to the project failure. It also aims to generally identify the franchise industry reality in the world and particularly in Egypt. It also identifies the reasons behind its low growth rates, the fundamentals to support that industry through explaining the franchise concept, its development and its economic, social, developmental, technological, management and legislative objectives. It also determines its elements, types, negative

aspects and basic fundamentals for its success. In addition, it identifies ways of granting and managing the franchise system. Finally, the study will review its most important findings ad recommendations.

4- The research approach:

The study has adopted the comparative approach through reviewing franchise system related literature, gathering available information. It has also used the descriptive and analytical technique by determining the relation between the globally franchise system success fundamentals and the current adopted franchise system and management in Egypt. It has also indicated the benefit from world expertise in expanding this system application ahead. In addition, large information related to the franchise system has been collected via the world information network; the internet.

5- The research Hypotheses:

The research has based on two main hypotheses, namely the franchise industry deterioration in Egypt has negative effects on the Egyptian economy and the franchise industry in Egypt is facing various internal and external challenges.

6- Research difficulties:

The research difficulty dwells on the topic modernization as the franchise system is considered as one of the newest investment systems. Therefore, its propaganda and promotion techniques are inadequate and its transaction scope is still limited. In addition, references are so rare and there are no franchise-system related legislatives in Egypt and all the Arab states.

7- The research plan:

The research plan contains the concept, objectives and development of the franchise system- the franchise system elements- types of the franchise system- granting and management techniques of the franchise system- the positive and negative aspect of the franchise based investment- fundamentals of the franchise system investment success- the status quo of the franchise system in some of the world states- the franchise industry in Egypt- and finally the research findings and recommendations.

First: concept, objectives and development of the franchise system:

The franchise system development: The franchise system plays an important role nowadays in the economies of several states. It has become the magic wand solution system and the optimal system to contribute towards technical

knowledge, technology and productivity projects transfer from the developed states to the other states. Thus, it helps create further job opportunities and curb unemployment. The United States is considered as one of the franchise system leading states as the number of its business franchisor companies exceeds 760,000 companies. A new business is established every 8 minutes under commercial franchise system umbrella. Notably, the word 'franchise' has a French origin and was used in the past when the landlords granted the farmers crop harvest and marketing rights under the landlord name. Commercially, this system was adopted in 1850 by the US private sector companies through marketing, maintaining, distributing the sewing machines of Singer Company; the fizzy beverages companies like Coca Cola and others. Coca Cola has granted license to other companies to manufacture and distribute its products using the same trade mark. This is followed by the automobile company General Motors and many companies in various fields as well with the aim of expanding their sales and distributions[4]. The experience was transferred to Europe from the Czechoslovakian Shoes Pata company in 1925, the cosmetic French company Yves Rochers, the hotel company Holiday Inn and others. The European Union for franchise law no. 4087 was issued in 1988[5]. The franchise system spread throughout the world due to the creation of several franchise associations in several world states like British Franchise Association (BFA), European Franchise Federation (EFF), International Franchise Association (IFA), American Franchise Association (AFA), and German Franchise Association (GFA). This type franchise associations has spread in many world states like Mexico, Brazil, Bulgaria, Greece, Malaysia and Singapore and some Arab states like Egypt, Lebanon, Saudi Arabia and others due to its economic benefits and effects on the domestic markets with their world trade exchanges. The franchise system appeared in Lebanon in 1973 with the Ken tacky company, Pepsi Cola, Hard Rock, MacDonald's, Pizza Hut, and the oil, medicine and automobile companies[6].

Definition and objectives of the franchise system: This is no one definition of the franchise system as it differs from a state to another due to the difference of the corporation and association that have worked out the definition. The franchise definition differs from a legal system to another as each legal system defines it according to its practical applications. Generally, the franchise system can be defined as a contract agreement between two independent parties based on the economic and legal aspects. Thereby, a party which is called franchisor grants the other party which is called franchisee the approval to use one or more of the industrial and intellectual property rights (business name, trade mark, patent and industrial models), or the production technical knowledge, goods and services distribution which the franchisor uses according to its instruction and under its supervision, namely in a specific geographic region for a limited period of time with obligation of providing technical assistance. This is done for a financial return, getting privileges or mutual economic interests. As there is no specific legislative organizing the franchise system there should be a clear contract agreement which includes all agreed upon points[7]. Therefore, it is a unique and

distinguished system to marketing goods, services, and technology in a successful economic style and in different forms. The franchise system can be describes as a strong strategic alliance aims to achieve a long term success to realize strategic gains and marketing goods and services. There are several criteria that should exist in the trade mark; most importantly the trade mark should be legally registered in the franchisor name in its country; it can be registered in the franchisee's country as well. It should also be consistent with the public system and ethics; it be distinguished and not misleading to the public[8].

The main objectives of the franchise system seek providing suitable legislative and investment atmosphere in order to encourage and develop small and medium investments; attract new categories of investors according to a globally successful system that helps increase the national income. In addition, it transfers knowledge, technology, technical expertise, copes with the developed states economies under the new globalization system and potentially lessens the management and organizing procedures necessary to grant the franchise license. It also provides several options that enable the consumer to choose among the available services and goods. This leads to activate competition and it will be reflected on good performance and the quality of provided services and goods. Studies proved that adopting the franchise system helps increase the success of more than 85% of the new projects that started to implement this technique due to expertise transfer and continuous support and knowledge from the franchisor to the franchisee[9].

The franchise system adoption is attributed to some small investors, who run small business activities whether productive or service projects in certain areas, have strongly and remarkably managed to develop their activities and are able to have secret, unique and distinguished recipes for their products and services as they registered them as a trade mark for their business activity. As their activity has rapidly become popular and their sales increased, they opened other branches in the neighboring areas with the same standards and conditions. As their ambition and aspiration increased to expand, spread and open other branches all over their states and around the world, it becomes clear that it is financially and managerially difficult to open other branches outside their areas due to risk and cost increase. Therefore, they have no other choice except to adopt the franchise system characterized with non-risk and low cost. This can be done through granting their business, service activity franchise and license to other people (investors) in different places and states to open other branches using the same business and services activity name, the trade mark and the know how of their activities with the same conditions and items which the main project owner is using for definite fees. Those licensed investors are limited in knowledge and experience of the world markets and entrepreneurs. In addition, they do not desire to have a zero start and take adventure of their limited capital. Therefore, they prefer to saving more time and effort and owning a successful project and a ready, integrated business with its trade mark, know how for paying certain fees[10].

Therefore, the solution for both parties is the franchise system as the franchisor will achieve expansion, advancement, world popularity, increase of sales and profits of the business activity. Meanwhile the franchisee will invest in a successful and popular project without exerting more efforts and time to establish trade mark, know how or taking risk of his limited capital. Some believe that franchise globalization is a new phenomenon started in 1990 due to the wide technological development in the communication and information realm, aspirations, and desires of most consumers to adopt the modern systems[11].

Examples of the franchise system based companies' fields: The international Franchise Association (IFA) included more than 85 different categories to classify business that can be franchised. Some may have wrong concepts when they think that the fast food or services restaurants are the only businesses concerned with franchise system. In fact, the franchise system covers almost all services and businesses. For instance, car manufacturing and fixing, car rental, speed post, freight and transportation services, tourism and travel services, communication services, advertising services, education and libraries services, print and photocopy services, hotels (Hilton, Holiday Inn and Sheraton), restaurant chains Wimpy, MCDONALDS, Hardiees, PIZZA HUT, COOKDOOR, KODU), pharmacies, cosmetic centers, cleanliness and maintenance, clothes selling, insurance services, health care centers, furniture manufacturing and selling, electric equipments, wholesaling and retail stores, constructions, real estate selling and renting, petrol stations, and other services. It is noted that all these projects around the world bear the same emblem, uniform, method, and decoration. That is, there is a total conformity in all aspects and the difference is only related to the owner. That is, the franchisee as a partner to the main project owner; the franchisor[12].

Second : Elements of the franchise system: The basic elements of the Franchise system are as follows [13]:

Franchisor: is the party that owns the good, service or a certain business and grants its use for an agreed upon financial compensation conditions. The franchisor often determines the conditions through which the franchisee will operate the business with intervening in his business.

Franchisee: is the party that purchases the franchise from the franchisor and has the right to operate the businesses owned by the franchisor, use his business name, trade mark and the franchisor's operating system according to agreed upon conditions in the franchise contract.

Franchise subject: in the franchise agreements, the operation place is owned and ran by the franchisee himself and the franchisor has rights in this case except domination of how products and services are sold and marketed according to the agreed upon standards and quality.

Franchise package: is the full offer through which the franchisee purchases from the franchisor and it includes the following elements:

Know-how skills : which are the secrets and expertise of the franchisor in operating the business, the trade mark, treatment and production techniques which should be registered and legally protected before being sold with the franchise package.

Business system : means all adopted systems and techniques by the franchisor to operate and run his main project.

Operating manual: is the main reference that shows to operate the franchise as it explains the system prepared, granted and sold by the franchisor. It includes criteria and necessary procedures to operate the project, its success which the franchisee should adhere and be committed to.

Initial and on-going training: is provided by the franchisor before and during operating the business by the franchisee and his staff to ensure transferring the necessary expertise for operating the business with the same quality.

Managerial and operational support: is the support provided by the franchisor to the franchisee in accounting, marketing, managerial and technical matters and other matters necessary to operate the business.

Franchise area: is the geographic area on which it is agreed in the franchise contract between the franchisor and the franchisee to operate the business within the area whether through totally owned united by the franchisee or granting him one of the franchise management techniques.

Franchise fees: there are different types of franchise fees or financial compensations that should be paid for obtaining the franchise; the most important of these compensations are as follows:

Initial fees: they include fees of agreement involvement which is a sum paid once or at different payments (25% at signing the franchisee contract agreement, 25% at the training end, and 25% at the shop opening). These fees are compensatory financial fees for the franchisor for granting the use of intellectual property use or for the initial training and management expenses.

Royalty fees: they include a percentage of the gross product income of the franchise project. They are the main source of the franchisor income and constitute the financial payments paid for the franchise on-going use.

Advertisement and promotion fees: goods advertisement, promotion and marketing are considered one of the essential elements to ensure the project success granted under the franchise system in addition to ensuring the continuous demand on the goods and services.

Fees for specific services: they include the franchisor continuous responsibility for providing consultative services to the franchisee regarding the granted projects management in order to improve the business conduct, system and modernization.

UFOC: it is the document prepared by the franchisor to reveal all information, business system and agreements which the franchisee need to help and enable him to make decisions before signing the franchise agreement. This document includes the company history, its staff number, managerial expertise in managing the franchise, financial and legal history of the company, initial and on-going fees, investment size and required procurements, rights and responsibilities and the two parties adherence, and information about other franchisees of the same franchise.

Franchise contract: it is the legal agreement between the franchisor and the franchisee to determine conditions thereby the franchise is granted and project is operated. It includes as well rights and subsequent obligations of each party. This agreement represents the will and consent of both parties and thus it differs and varies according to the two parties' wishes and desires. The franchise contracts include the following items: right to use the franchisor's business name, trade mark, production techniques or any other production techniques in addition to technical, managerial, accounting and marketing assistance, work sites and areas included in the franchise, the franchise contract duration, franchise fees, conditions and commitments of contract renewal and contract termination and its subsequent consequences.

Third: types of the franchise system: Although there are several and varied franchise types, they all have common elements that determine the franchise system. They can be subdivided into three main types[14]:

Manufacturing franchise: according to which the franchisor grants the franchisee the good manufacturing and selling rights under the franchisor's name and trade mark through using the franchisor's raw materials, standards or special technologies. Sometimes, the franchisor grants the business know how or technology subject to patent such as food and beverage industries.

Distribution franchise: this type aims to establish a distribution centre of the manufactured goods by the franchisor who manufacture the goods and sell them to the franchisee who sell them to the consumers under the franchisor's special trade mark. This type of franchise

provides a distributive system to market the goods and give the franchisor the right prevent the franchisee from selling a competitive good such as the fuel assembly stations, car vendors, ready-made clothes shops, jewelery, and decoration shops.

Business format franchise: the franchisor does not manufacture any goods but provides equipment, raw materials, assembly and packing materials, advertisement and production means and goods and services distribution. On the other hand, the franchisee deals with the franchisor's services; adopts his trade mark, and his overall way of displaying products. This is the most known and promoted type of franchise, particularly in the service sector of hotels and fast food restaurants.

Fourth: Methods of granting and managing the franchise system: There are different methods of granting the franchise system that determine is obliged to perform. There is a potentiality as well create different methods out of the franchise relations to ensure proper implementation of the work objectives. Among the common methods are [15]:

Single franchise: is the most common known type in the case of local franchise. That is, the franchisor and the franchisee are from the same country. The franchise is only granted for the right to operate and develop one shop in one location and in a definite geographical area.

Multi unit franchise: it aims to cover a large area or a geographical area by establishing a number of branches through an agreed upon duration. This technique depends on two determined methods: (area development franchise or main franchise):

Area development franchise: according to this method, the franchisor is directly linked to the franchisee that should open and operate different branches. The franchisee should develop the area allocated to him through establishing a larger number of branches or stores related to franchise or his own ones. The franchisee cannot a secondary franchise contract with a third party which is known as sub-franchise.

Master franchise: according to this method, the franchisor grants the franchisee the right to grant franchise to a third party that is usually called sub-franchisee to exploit potential investment opportunities in larger geographical areas in the world. It is agreed that some of the sub-franchisees will run more than a franchise.

Fifth: positive and negative aspects of the franchise system investment: Undoubtedly, dealing with the franchise system has advantages for the franchisor and the franchisee in addition to the advantages which they obtain due to joining franchise-related corporations and associations.

First: Positive aspects of the franchise system investment:

The franchise system helps exceed the boundaries, restrictions among states and penetrates into the commercial markets. It helps develop exports through selling the franchise products in the world markets. Thus, it leads to improve the payment balance in favor of the state's transactions with the other states. It helps strengthen the purchasing power in the domestic economy due to creating further job opportunities and curbing unemployment. It also helps the local labors' acquisition of skills, high technological and managerial qualifications via training provided by the franchisor. It helps push forward the domestic economy quest through the small and medium investments contribution in the available investment fields. It helps small investors to find investment opportunities and achieve profits that lead to increase their social and financial positions. In addition, it helps to have better understanding of the clients' needs, provide further wide market options. It also helps increase the inter-trade between the Arab states as these projects can easily spread since the Arab inter-trade size does not exceed 9.4% of the their world trade[16].

Franchise-investment privileges for the franchisee

[17]:Dealing with a popular good or service: dealing in the field of franchise with a popular good or service as the business name, trade mark are well-know to consumers. The franchisor usually spends large sums on international and domestic advertisements. Obtaining high quality criteria: through devising high quality of providing, selling and maintaining the service and good which are usually organized in a way that cannot distinguish between a branch and another in performance. The franchisor sends staff to control quality and solve any problems which the investor is facing. Using low-working capital: projects that depend on franchise do not usually rely on large working capital as the storage is available with the franchisor. The costs of production and marketing are little as the product is known and the demand is high. Thus, there a quicker returns than those from a normal project. According to BFA, statistics refers that 95% of those adopted franchise have proved successful during the early five years of the business start. Bank-credit facilities: in the case of applying to get a franchise from a well-known company (the franchisor) and to sign a contract with it and due to the franchisee need of a bank loan to start its activity, the lending bank in this case will be ready to help the franchisee with the required sums. The franchise signed contract lessens jeopardize the activity to failure and thus the bank feels that it sums are safe. On the contrary in other projects where the bank requires the submission of several guarantees. A rapid growth opportunity: the franchise owned companies are keen not to have many competitors using the same franchise in the same area where the new investor operates in order to ensure the coverage of a new geographic area and achieve good sales so as to help having a rapid growth opportunity.

Franchise-investment privileges for the franchisor

[18]: Expansion, spread and competitiveness: the franchisor can expand in his company through selling the franchise to others who want to use the commercial name, trade mark and the

product as the franchisor spends little in this regard. Therefore, the new buyer bears most of the cost. The mother company owner of the franchise can enter new markets which he did not enter before through the investors desire to buy the franchise. Granting of a special franchise of a certain company will attract new clients to that company in a new geographical area. Thus, the company name and reputation will spread and acquire further clients in the new outlet. Motivation and enthusiasm: the franchise mother company loses motivation and enthusiasm to expand after a period of time as its tendency of taking adventure and risk becomes less due to its previously achieved success. However, the buyer who desires a new investment has the motivation and enthusiasm for doing so. Therefore, enthusiasm transfers from the small investor to the mother company. Large amount purchase: the franchise mother company buys for itself and other branches in large amounts which give the company a high purchasing power and better negotiation ability with the suppliers. Thus, it can obtain less prices and better delivery conditions that entirely benefit the branches and the franchisee. Mutual advertisement: the franchise mother company finalizes international, regional and domestic advertisements of which the franchisee and other branches benefit. The more the branches are the less the advertisement share of each branch is. Thus, the advertisement cost becomes less in average.

Second: Negative aspects of the franchise system:

among the most important negative effects of the franchise system is the unfair competition among the franchise newly established activities. In addition, the expected harm to its domestic business and service activities counterparts in relation to the production developed techniques, management, advertisement and training. This can negatively affect its growth ahead and may lead to suspense some small and medium activities that will depart from the market due to its inability to compete because of the absence of development and modernization programs of marketing and production structure. The franchise system is considered as a means to spread the other people cultures through importing the consumption and food patterns. It is considered as a cultural invasion to the region people. The franchise leads to economic exhaustion due to the management costs and the intellectual property exploitation fees represented in paying a ratio of the annual sales value and the equipment costs imposed due to the flow out of the foreign currencies at the time in which developing countries suffer from the foreign currency scarcity. This negatively affects the national balance of payments[19].

Negative aspects of the Franchise system investment for the franchisee

[20]:Disappointment: the franchise buyer from the franchise mother company have further expectations like fields experts, main expertise of success and secretes of success in production and selling, the business name, the trade mark, advertisements and when the franchise mother company fails to provide such things to the franchisee, he feels disappointed. Cost increase: the franchise buyer sometimes feels that the cost he pays to the franchise mother company is high and does not parallel the service he obtains.

Further reliance on the mother company: the buyer believes that the franchise mother company will give him everything. Indeed, the franchise mother company gives a lot of services but it cannot ensure the buyer's good conduct and his skills of the new project management. Restrictions imposed by the mother company: they are represented in the franchise buyer that the franchise mother company imposes restrictions on him that curb his discretion. Examples exist when the mother company determines the field or the geographical boundaries in which the buyer can have discretion. The franchise mother company may impose certain limits for the nature of goods and services that the investors should not deal with. Possibility of contract termination: the franchise mother company stipulate in the franchise selling contracts strict legal rules related to that the franchise cannot be transferred from the mother company to the buyer, franchise contract renewal or termination, the buyer should not seek competing against the franchise mother company and the buyer should agree upon the contract and follow these conditions otherwise he may face at any time contract termination. Other branches performance: negative performance affects other branches and the deterioration of other branches. Thus, the buyer should note the competence of other surrounding branches.

Negative aspects of the franchise investment for the franchisor: Changing the property form: Expansion through selling the franchise to the smaller buyers may change the branches domination to their owners from the smaller investors. Thus, mother company losses its dominance on part of its capital as it exists and owned by others. Difficulty to attract investors: the franchise mother company looks for ideal investors from its viewpoint that have technical, managerial and financial high ability that make them competent investors. This hard to be found among younger investors. Other branches communication difficulty: the franchise mother company exists somewhere while branches owned by small entrepreneurs exist in other far places around the whole world. In addition, differences in languages, culture and civilization of each country and the habits and traditions, political and legal restrictions due to different places and countries imposes difficulty of communication and coordination among the branches. Non-freedom of company management: the franchise mother company suffers, in the case of new investors' participation, from losing its freedom in running the company. Some investors think of taking decisions include the addition of new good or service, production interference. Although the franchise contract stipulates restricting this freedom in favor of the mother company, it losses this freedom with the investors attempt to change some conditions and raise them for negotiations. For example, happy meal and the big mug idea was that of the MacDonal'd's franchisee and not the original company[21].

Sixth: Fundaments of the franchise system investment success: The fundaments of the franchise projects success entails several elements, mostly important are the availability of organizing legal and legislative environment of the franchise system work. This is considered as one of the most

important necessities for the system success. Availability of experience, knowledge of the franchise system fundamentals of the granting establishment, good choice of space (35 meters square minimum), for the project suitable place, continuous development and modernization of goods and services provided by the project, existence of the effective market demand on the project products, good selection of poper marketing and advertisement for the project, full quality adherence in all the project steps, providing help and assistance from the franchisor, providing proper financial and human resources, ability to deal with others and teamwork leadership, availability of adequate working capital, good selection of the franchise type in accordance to the market needs, the franchisee desire to bear responsibility and risk, good maintenance and modernization of potentials and preserve the work place prestige, accurately identify the franchisor's rights and duties, accurately study the franchise contract and seek the legal consultation, full time project management and avoiding the focus on several projects, good selection of staff and employees. Finally, it is the franchisor company's approval of the project place and on the franchisee[22]. There are three factors which clearly indicate the extent of franchise activity success, namely number of the existent activity units, experience years of the franchisor and the franchisee in the existent units, number of units failed whether through the franchisor or the franchisee, these information can be obtained through the UFOC. Finally, it can be said that the franchisee is responsible for the project success or failure. He must totally depend on what the franchisor provided assistance. He also has to seek development and improvement of his competence. First and foremost, he is the project owner and must develop his skills in (management, accounting, clients service, selling techniques and fundamentals of public relations).

Seventh: Status quo of the franchise industry in some world states: The franchise industry gives a greater degree of freedom in the relation between the franchisor of foreign license and the local license-benefited franchisee without government marginal intervention. At the world level, there are more than 15000 franchise companies and more than million franchisees that have total sales of \$ 8.4 trillion dollars in 2007 then reached about \$ 10.3 trillion dollars in 2012. The Middle East and Africa share represents about 4.6% and the international franchise organization for the franchised projects includes more than 75 different types of business activities[23].

The United States participates by more than 4 thousand franchisors and occupies the furst rank in this field. It has 1500 trademarks circulated according to the franchise system. Among every twelve projects a new franchise project emerges. In Europe the franchise adopted trademarks are 11731 trademarks. In France, there are more than 1369 trademarks, in Britain, there are about 840 trademarks, in Turkey there are almost 1640 trademarks, in Malaysia there are about 500 trademarks and in the Arab world there almost 70 trademarks only[24].The US Franchise Association statistics refers in 2010 that the franchise business total annual sales and the franchise-benefited companies valued

about US trillion dollars equal to 40% of the all services and retail sales in the United States out of 350.000 franchise-operated small projects in 75 fields. There are 10 million employees working in the 85 franchise-based industries representing almost 6% of the total gross employment. There is also a new franchise opens daily in every 8 minutes in the United States. In 2010, more than 90.000 new franchise projects were granted as MacDonald's alone possesses more than 40000 branches around the world. The fast food meals in America represent according to the new franchise system about 10% only of the franchise companies' number. The US government studies revealed that 77% of independent businesses have been shut down during five years of its inauguration while 8% only of the new franchise-operated projects have been shut down during the same period. That is, the franchise failure ratio is almost 10%. It is clear that the franchise system has less risk and largely less in cost as compared to the independent investment systems. In the field of franchise-based training, the Holiday Inn University provides overall training courses necessary to the franchise projects and those who rent the trademarks with a cost estimated almost \$ US five million dollars. These training courses are distinguished due to they require no previous knowledge on the part of the beneficiary[25].

In Britain the franchise system sales valued 9.6 billion Sterling pounds as the franchise industry employs 400.000 labors rated 1.2% of the labor power in Britain. Statistics refers that 96% of the new franchise established during the last five years are still competently operating and 95% of them are still profitable. The commercial services sector and service real estate sector are the two largest sectors in the franchise industry as each of them represents 22% of the franchise system[26].

In Germany, the franchise system provides about 450.000 jobs annually. The annual franchise work increases by 20% and the internal trade size through franchise increases by 2 billion Euros annually. The Dutch Franchise Association refers that only 2.4% out of 15.000 activities registered in the association have obliged to shut down while other activities are successfully operating[27].

In Japan, the franchise provides almost 160.000 jobs annually and the franchise trade size reached about \$ 119 billion dollars annually as the franchise growth ratio ranged between 6 to 7% annually.

In Australia, the franchise system provides about 280.000 jobs annually and the franchise dealing valued about 50 million Australian dollars annually.

In some developing countries such as Malaysia, the franchise industry contains this industry contains about 16 activities in each of them. In these two states, there are additional activities called Platinum, gold and bronze besides the

master franchise, which means that the project invested in capital is not less than \$ US 250.000 dollars.

In Saudi Arabia the number of world companies using the franchise system is more than 250 companies working in 26 different activities out of 100 franchise-based activities. The number of franchisees in Saudi Arabia is 200 franchisees. The consumption services, restaurants, clothes and leather products trade represent almost 74% of the total franchise activities. The area of Riyadh has the largest share of the franchise system by 66% despite its inhabitants represent 21% of the Saudi population. The franchise system provides new jobs in Saudi Arabia because of its penetration in more than commercial and industrial professions. The franchise dealings valued in Saudi Arabia about \$ US two billion dollars annually. The franchise growth ratio in Saudi Arabia ranged between 10-12% annually[28]. The fast food sales size in Saudi Arabia estimated almost 700 million SR. The Saudi franchise market investment size valued about 5 billion SR. the Saudi companies can grant franchise abroad in Indonesia and the United States then followed by other Saudi companies numbered 22 companies today. The number of franchise in one of the Saudi companies (Kub Al-Zoura) estimated 700 franchisees in several countries around the world[29].

Eighth: the franchise industry in Egypt: The Egyptian law defines franchise as a contract in which one of the producers or the traders called franchisor allows another trader called franchisee to have the right to use selling methods, services means by the franchisor. This definition does not cover one of the franchise sides, i.e. marketing as it does not focus on the main objective achieved by the franchise system. That is, the franchisee benefit from the technical secrets knowledge possessed by the franchisor[30]. The Egyptian market is characterized by many characteristics that enable it to become a suitable investment atmosphere to assimilate local and world franchise due to the investors' desire to possess a private work, wide desire of consumers to try whichever new. Statistics refers to the success of more than 80% of the franchise projects working within the Egyptian market in light of the good concern and preparation of feasibility studies to ensure these projects success. Data refers to the great importance which the franchise system acquires in the Egyptian market is 600 competing local and global companies invest in 34 different activities. They provide about 800 direct job opportunities and 1.5 million indirect job opportunities through the feeding industry that provides services to the franchise system. The franchise sector investment size in Egypt valued about L.E. 80 billion pounds particularly for the small and medium projects. The sales size is almost L.E. 12 billion pounds in 2013 in which the American share represent 45% out of the total revenues. Egypt is considered as the only state in the Middle East region that enjoys the membership of the Franchise World Council which obtained in 2005 through the Egyptian Franchise Development Association. Egypt is the second state in Africa after South Africa.

The franchise system in Egypt begins with the first shop chain working the fast food field in 1973, i.e. wimpy chain in Al-Mohandiseen district to become the beginning for the Americana company which is the first franchise company in Egypt. This is followed by many American chains like Kentack and the pizza shops so the number of franchised world restaurants in Egypt became 11 restaurants. The American company then started to manufacture the raw materials necessary for its operation as it established the beef burger factory, then the chicken factory (Koky) with poultry farms and also fodder factory and slaughtering centers. This is followed by the establishment of the farm frits to manufacture potatoes used in its shops and bakeries to make different bread types and the products were not only restricted to the local markets but extended to exports. Due to the franchise importance in Egypt, the social development fund established franchise development unit through promotion to establish and finance successful small franchise projects. It attracts the great franchisors companies to provide consultations to those interested companies in the franchise system and to participate in the local and international exhibitions for franchising, hold seminars and negotiate with the franchisor companies, look into contracts to ascertain of their quality and seriousness, prepare feasibility studies and small franchise project profiles in addition to providing necessary funding through certain banks.

The franchise projects are funded through the franchisee self finance, partial funding from the franchisor, social development fund, the banking system in accordance with its credit rules. The fund is concerned with the social development in Egypt through funding small projects in all economic sectors run by the franchise system due to its continuous successful fundamentals as they rely on commercial names and market-strong existent products. In addition, the African bank provides funding valued \$ US 40 million dollars allocated to developing the existent small and medium franchise-based projects. This loan is managed through the social development fund with distinguished and soft conditions for the youths through 30 branches spread around different governorates[31].

Among the most important success fundamentals of the franchise system in Egypt are: Egypt's membership to the World Trade Organization and its opening to the external world, the Egyptian-European partnership agreement, Egypt's membership in several economic blocs, the government support and encouragement to the private sector, the government orientation towards supporting the small and medium establishments, good performance of the banking system in Egypt as testified by the international financial institutions, the increase of population and purchasing power which the Egyptian society members enjoy of, the financial and managerial ability of the Egyptian investor, the geographical spread and variation in the Egyptian market, and migration and travel of Egyptians overseas (6 million Egyptians) and their knowledge of the world products. The franchise-based projects are considered attractive to banks in terms of funding due to their high success ratio because of

their reliance on world trademarks according to the franchisor's standards in terms of marketing and management systems, technology transfer, creating job opportunities, the world trademark of the franchisor which is considered as a source of trust for the banks to grant funding, the increasing growth of the franchise based activities in Egypt which is considered as a good source of development and varying the banks credit portfolio, the Islamic banks desire to finance franchise projects in Egypt as one of the project financing techniques in accordance to Islamic Shari'a[32].

Among the most important problems facing the franchise system in Egypt are its legal nature vagueness, disruption of the legal system that determines the working nature of that system and its effects on the contract parties in terms of rights and obligations and thus it leads to relinquish rights, particularly the franchisee as Egypt is one of states receiving the technical knowledge. The franchise system in Egypt subjects to the commercial law rules and thus it is vague and unclear . The Articles no (72) provision no (2) of the Egyptian commercial law draft says "the verdicts of this chapter are effective on every contract to transfer technology concluded by an independent contract or contained within another contract". The franchise contract subjection to this law is facing several criticisms. Briefly, the franchise system is a totally self independent system from other similar contracts. Due to its modernization, the laws in some world countries including the Arab countries and Egypt their laws are free of franchise related rules. That is, it subjects to general rules included in the contract[33].

In general it can be said that the number of corporate donors for Franchise in the Arab region, including Egypt, does not exceed five companies, at a time when all elements of the success of the franchise system in a lot of companies in the Arab region are available, including the continuing increase of sales and high profitability, credibility and practical experiences, as well as universal acceptance in the Arab traded commodity markets.

Ninth: Findings and recommendations: In light of the foregoing, the following most important findings can be summarized below:

- Franchise is an important and effective means of economic and investment development due to its several subsequent privileges to the franchisee, who invests his money in a successful project in which he does not necessarily have adequate experience as he relies on the successful expertise provided by the franchisor.
- Franchise is considered as a successful means of technology transfer in order to cope with world economic and technological fields' development.

- Franchise is considered as a political and economic contract aims for the donor countries to culturally and economically conquest the developing countries.
 - Franchise industry in Egypt is still lagged behind despite of having necessary successful fundamentals. This negatively affects the Egyptian economy.
 - There is no independent law organizing the franchise system in Egypt.
 - The unavailability of any data about the franchise investment available activities in Egypt.
 - There is contradiction in the available information and qualitative and quantitative data on the franchise system in Egypt.
 - The non-inclusion of the franchise system within the content of study in the faculties of Commerce, Economics and Law in Egypt.
 - There is no activation of the role of Egyptian Franchise Association in spreading the franchise culture among investors and the public through means of advertisements and promotions for the franchise system.
 - The Egyptian banks refusal to finance franchise projects and their preference to finance leading companies at the expense of the small projects.
- The franchise subject matter of products and services should be suitable to the franchisor's technical expertise.
 - The negotiation skills on the franchise contract formulas by seeking help of experts like consultants and lawmen.
 - The necessity to work on making investors, who want to adopt the franchise system, aware of its legal, economic, financial, technical, and managerial aspects.
 - Activation of the Egyptian Franchise Association role in supporting and spreading the franchise culture system.
 - Activation of the Egyptian commercial representation bureau overseas to attract further foreign companies for investment according to the franchise system in Egypt.
 - Holding more scientific and specialized conferences, seminars, and workshops and varied training programs to explain the franchise system importance in the economic life.
 - Establishing a franchise studying program in the faculties of Commerce, Economics and management, Law at the Egyptian universities in order to deepen the franchise concept, its nature.
 - Benefit from foreign experiences, knowledge and experts in relation to franchise implementation, particularly Brazil and Malaysia trials.
 - The necessity to amend the regular collected fees system from the franchisor in order to become a ratio of the total profit and not total income.

In the light of what has been introduced earlier concerning the study findings, the study provides the following suggestions:

- The franchise industry in Egypt and rapid organizing independent laws and legislatives help determine the responsibility of each party in the franchise system to protect the intellectual property rights from imitation and illegal competition and devise constraints and deterrent sanctions for the outlaws.
- The overall economic feasibility study of the franchise project by the franchisor prior to signing the franchise contract.
- Accurate and thorough selection by the franchisor company in order to be reputable, and has a well-know trademark and at a high competence level in its operational and managerial system.
- Unifying domestic standards and measures related to franchise such as operation guidelines, work procedures, quality control criteria, secrecy requirements criteria, raw materials lists, scrutiny rules and others. This can be done according to the world standards and specifications adopted for the franchise system.
- Devising limited rules for explaining payments settlement, financial compensations paid by the franchisor to the franchisee, continuous fees of advertisement and marketing and others.
- The franchisor should be obliged to compensate the franchisee in the case of losses due to an error committed by he franchisor or his supplied information or miscalculations.

- Establishment of an information bank include all overall information about all those adopting the franchise system in Egypt such as capital and employees, domestic and imported used raw materials, sales and profit and other information for each industry separately. This type of information should be updated regularly.

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