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## Article

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UTMS Journal of Economics

### Provided in Cooperation with:

University of Tourism and Management, Skopje

*Suggested Citation:* Stanković, Milica; Džoljić, Jovana; Popović, Vladimir; Anđelković, Tiana (2023) : Franchising in Serbia: Trends and perspectives, UTMS Journal of Economics, ISSN 1857-6982, University of Tourism and Management, Skopje, Vol. 14, Iss. 1, pp. 43-51

This Version is available at:

<https://hdl.handle.net/10419/281930>

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## FRANCHISING IN SERBIA: TRENDS AND PERSPECTIVES

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### **Abstract**

Considering the great importance of franchising for economic development at the global level, the research of this business concept is very important for its further improvement. Despite the existence of a number of studies on the topic of franchising, this area is still insufficiently researched, especially in the Republic of Serbia. One of the biggest problems in the field of franchising in the Republic of Serbia is insufficient information about franchising as a business concept and internationalization strategy. Therefore, it is necessary to promote this concept as a chance for successful business, both within the borders of our country and on the international market. The aim of the paper is to point out the importance of franchising as a business model, with special reference to the development and importance of franchising in the Republic of Serbia and recommendations for the improvement of the franchise sector.

Key words: franchising, franchisor, franchisee, Serbia, internationalization

*JEL classification:* M19, M21

### **INTRODUCTION**

Franchising as a business concept has experienced expansion over the past few decades. However, despite the increasing interest in the franchise way of doing business, this area is still insufficiently researched, especially in the Republic of Serbia. In the world, there is a constant tendency to develop existing and new franchise systems, considering that these systems contribute to the increase in employment and economic growth. The number of franchises in the world is growing year by year, and it is noted that as many as 96% of franchisees successfully operate even after five years after starting franchise business. The success of a franchise business usually depends on the franchise relationship between the franchisor and the franchisee, which is very complex and must be regulated in detail by the franchise agreement. In addition to legal regulation, it is necessary to build relationships of trust, cooperation and loyalty between participants in the franchise system.

The aim of the paper is to point out the importance of franchising as a business model, with special reference to the development and importance of franchising in the Republic of Serbia and recommendations for the improvement of the franchise sector. The first part of the paper analyzes franchising as a business concept, while the second part focuses on the development of franchising in the world and in the Republic of Serbia.

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The third part of the paper is dedicated to the current state of the franchise sector in the Republic of Serbia. In the fourth part of the paper, perspectives and recommendations for the further development of franchising in the Republic of Serbia are indicated. After a comprehensive analysis, relevant conclusions are presented.

## 1. FRANCHISING AS A BUSINESS CONCEPT

The franchise concept is researched from the perspective of various scientific disciplines: marketing, economics, law, organizational theory. Over the past few decades, franchising has experienced expansion and continuous growth, fueled largely by the emergence of new forms of franchising in new areas, from hotels, restaurants, to children's education, beauty salons, care for the elderly, etc. (Grunhagen and Mittelstaedt, 2005). Thanks to the franchise business system, many companies have achieved success, which has positive implications for all economic activities and the economy as a whole. In the last few decades, the number of franchises in the world has grown significantly, given that franchising provides better financial results and greater chances of survival than alternative organizational forms (Nijmeijer, Fabbrocetti and Huijsman, 2014). It should be emphasized that in 96% of cases franchisees are successfully operating even after five years of operation. This indicates a better result than in the case of starting an independent business (about 40% of business ventures fail after three years of operation) (Alpeza and Erceg, 2012).

In the case of franchising, the risk is lower than when starting an independent business. There is no need for market research, as the franchisor has already done it. The franchisor provides the franchisee with support, but generally also has some control over the franchisee's way of doing business. In return, the franchisee pays the franchisor an initial fee and royalty (ibid.). Starting a franchise business very rarely fails, and when it does, it's usually because the franchisee didn't follow the procedures. Entering the world of franchising provides a proven business concept that needs to be applied (Privredna komora Srbije, 2008). There are a large number of advantages that franchising brings, both to franchisors and franchisees. It is expected that due to the series of advantages it provides, both for the franchisor and for the franchisees, franchising as a business format will reach its culmination in the next decade and become one of the prevailing forms of business (Stefanović and Stanković, 2013, Stanković, 2021).

The franchise network consists of the franchisor and all its franchisees. Thanks to a common brand, franchise networks build a reputation with customers relatively quickly and tend to maintain it through stable cooperative relationships between franchise participants. A franchisor is a company that provides know-how, i.e. intellectual property, to franchisees. The franchisor usually provides a wide range of services, from training, to the supply of products and marketing plans, while receiving an initial fee and royalties in return (Stanković, 2014). A franchisee is an entrepreneur or SME owner who wants to have a more secure business future by entering the franchise system. The ideal franchisee for a franchisor is a local entrepreneur/SME owner, who knows the local market well and has seen a need for a specific product and/or service in a given market. By buying a franchise, the franchisee skips several initial steps and does not have to repeat the mistakes that the franchisor has already gone through. The common goal of the franchisor and franchisee is the success of the franchisee's business, bearing in mind that the income that the franchisee achieves is simultaneously a source of income for both participants in the franchise system (Privredna komora Srbije, 2008).

## 2. FRANCHISING IN THE WORLD AND IN THE REPUBLIC OF SERBIA

The first commercial franchise was the Singer Sewing Center, which was developed in 1858. Singer decided to give the right to selected dealers (users) to sell sewing machines on horse-drawn carriages in precisely defined territories, which gave the company a competitive advantage that it still has today (Kandić, 1995). This business concept later began to be replicated in other industries. Coca Cola is one of the first companies to develop a franchise system, which allowed it to expand by shifting the production, storage and distribution of its product to local businessmen who received bottling rights (Dant, Grunhagen and Windsperger, 2011). In addition to the Coca Cola company, some of the most famous franchises and the years of their creation are: Kentucky Fried Chicken (1930), Dunkin Donuts (1950), Burger King (1954) and McDonald's (1955) (ibid.). Ray Kroc, the founder of the McDonald's company, is the originator of modern franchising as we know it today. He was a successful milkshake maker salesman. One of his customers was the successful fast food retailer McDonald's. Kroc, seeing the great success of the McDonald's restaurant, wanted to replicate and copy his successful business across the USA. McDonald's fast food restaurants are today the most famous example of a franchise business (McDonald's, 2022).

The initial development of franchising is linked to the US market (the US is considered the "cradle" of franchising), after which this concept experienced expansion in Europe and the world. The importance of franchising on a supranational level is reflected in the establishment of the International Franchise Association, which represents the oldest and largest franchise organization, and the European Franchise Federation, which is the most important organization in the field of franchising in Europe. Until the beginning of the 1980s, almost 90% of franchises were related to the North American market. By 2012, the situation had changed, and half of the franchise networks had their headquarters in countries outside the USA. In the initial phase of the international expansion of American franchise systems, the effort was concentrated on more accessible markets (Frazer, Weaven, Giddings and Grace, 2012). Canada has become a major target for American franchisors, primarily because of proximity, but also because of market potential. Australia was also one of the main targets of American franchise chains in the initial phase of internationalization of franchising. Australia today has one of the most respected franchise sectors in the world (Merrilees and Frazer, 2006).

Franchising is widely represented in Europe as well. Taking into account the "Single European Act", which eliminates internal borders between EU countries, franchisors have the opportunity to operate on a larger market segment. It is clear that despite the trend of removing physical, technical and fiscal barriers, there will still be some vital differences within the EU such as differences in language, culture and lifestyle that will still require the adaptation of franchise systems to local conditions (Alpeza and Erceg, 2012).

In the Republic of Serbia, the franchise way of doing business is developing. Franchising arrived in the Republic of Serbia, that is, in the former SFRY, very early, already at the very beginning of its European expansion, in the mid-70s of the last century. In that period, the import of American franchises begins. The first American franchise chains in Serbia were Coca-Cola, Avis, Diners Club International, Intercontinental, Hyatt, American Express, McDonald's, etc. In the second stage of franchising development, domestic companies realize the advantages of expanding their

systems through this concept. During the 1980s, and especially in the early 1990s, domestic franchise networks were built. In this period, Montenegro Express, Tigar, Pekabeta, C Market, Yumco and others began, with more or less success, to create and sell their franchise packages (Privredna komora Srbije, 2008). At the beginning of the 1990s, franchising became fashionable in the former Yugoslavia. After that initial development of franchise organizations, a new momentum in their development arose at the end of the last decade. Thus, at the end of 2007, the Franchising Center at the Serbian Chamber of Commerce was established as a central place where all those interested can get competent information about franchise business in the Republic of Serbia. In addition, in 2009, the Serbian Association for the Development of Franchising (SURF) was founded as a non-governmental and non-profit association of citizens that promotes franchise business in the Republic of Serbia (ibid.).

### 3. FRANCHISING IN THE REPUBLIC OF SERBIA: CURRENT SITUATION

The basic research problem of the paper is related to the analysis of the state and dynamics of franchising development in the Republic of Serbia, as well as the perspectives of the development of franchise companies in the future. The research subjects are domestic franchise companies from the Republic of Serbia. The sample is very specific for several reasons. Primarily, there is no single official database of franchise companies in the Republic of Serbia. For this reason, the author created a database of domestic franchise companies from Serbia based on the available literature and relevant online sources. Initially, the base consisted of 60 domestic franchise companies. After the check, it was determined that as many as 10 companies from the database no longer operate under the franchising system. As the most common reasons for the termination of franchise business, company owners and managers pointed out the insufficient legal regulation of franchising in the Republic of Serbia and the insufficient commitment of individual franchisees who have too high expectations from the franchisor, in terms of ensuring successful business almost without any commitment or investment from the franchisee. Given that the focus of the work analysis is on small and medium-sized enterprises, for the purposes of further research, two large enterprises and one non-governmental organization were excluded from the database. The final relevant base for further research consists of 47 small and medium-sized companies from the Republic of Serbia that operate under the franchising system and which make up 94% of the total number of franchise companies in Serbia. The result of all attempts to get answers from the mentioned companies is 32 completed questionnaires and 15 companies that declared that they did not want or were unable to participate in the research.

Analyzing the sample, it can be seen that half of franchised SMEs from the Republic of Serbia are small enterprises, 21.9% are micro enterprises and 28.1% are medium-sized enterprises. As expected, the largest number of franchise SMEs are from Belgrade, as much as 59.4% of the total sample. If we look at all analyzed franchise systems, it can be concluded that 3/4 of analyzed franchise SMEs from the Republic of Serbia are located in Belgrade, Novi Sad and Niš (75.1%) (Figure 1).

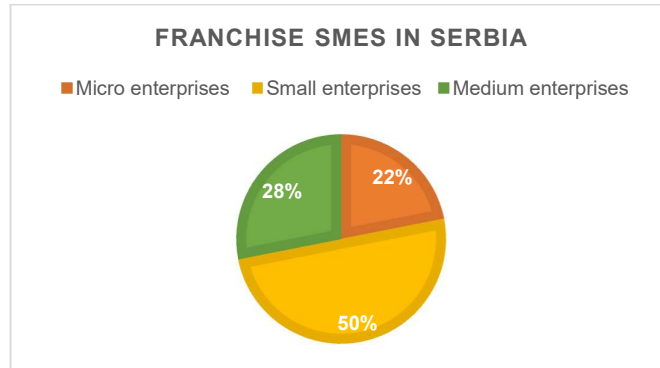


Figure 1. Franchise SMEs in Serbia

The results of research show that almost 2/3 of the analyzed franchise SMEs in the Republic of Serbia decide to enter the foreign market, while 37.5% operate within the borders of Serbia. Based on the respondents' answers, it is concluded that in relation to the total number of companies analyzed, 34.4% of franchised SMEs use export, 25% franchising and 3.1% licensing as an internationalization strategy. Observed only within franchised SMEs that operate internationally, more than half of the analyzed companies decide to export their products to foreign markets (55%), 40% apply franchising and 5% licensing (Figure 2).

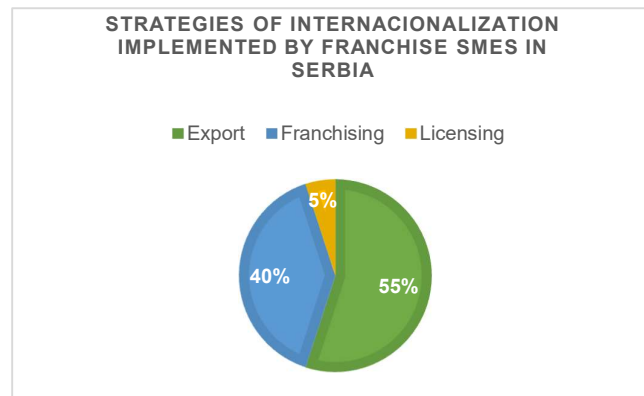


Figure 2. Strategies of internationalization implemented by franchise SMEs in Serbia

Based on the classification of franchising SMEs into micro, small and medium, and the observation of international business based on that criterion, it can be concluded that franchising as an internationalization strategy is applied by three small and five medium enterprises. Therefore, none of the micro franchise companies from the sample decided to use franchise business when performing their international activities. Therefore, it is concluded that larger companies prefer to enter the foreign market by using the franchise concept. This is also supported by the fact that micro and small companies prefer export as an internationalization strategy. Of the total number of franchised SMEs that

implement export to enter the foreign market, as many as 81.8% are micro and small enterprises (45.5% small enterprises and 36.4% micro enterprises).

Analyzing the data on the activities of franchise SMEs from the sample, i.e. the sector in which they operate, it was concluded that the largest number of franchise SMEs operate in the trade sector (50%), while 25% of franchise SMEs operate in the production and 25% of franchise SMEs operate in services sectors. Observed only within franchised SMEs that apply franchising as an internationalization strategy, 75% of franchised SMEs are engaged in trade and only 12.5% of companies are engaged in production, and 12.5% in services.

By analyzing the size of franchise SMEs, it was determined that the largest number of companies have up to 10 franchise units, as many as 80.6% of franchise SMEs. Only 3.2% of franchised SMEs have a total of more than 51 franchise units. When it comes to franchised SMEs operating abroad through franchising, 71.4% of companies have up to 10 franchise units abroad. Only 14.3% of franchise SMEs have from 11 to 25, or 26 to 50 international franchise units. With the aim of analyzing the international franchising activity of franchised SMEs in Serbia, the share of international franchise units in the total number of franchise units will be analyzed. The share of international franchise units in the total number of franchise units ranges from 37.5% to 90%. It is important to mention that the average number of years of business of the analyzed franchise SMEs is 13, while the average number of years of franchise business is about 7 years. A minimum of 1 year and a maximum of 14 years pass from the establishment of the company to the beginning of the franchise business, that is, on average, about 6 years. Franchise SMEs from the Republic of Serbia that apply franchising as an internationalization strategy most often decide to enter the markets of the countries of the former SFRY. In fact, as many as 85% of analyzed franchise SMEs from Serbia have franchise units in one of the countries of the former SFRY.

The oldest company in terms of the number of years of franchise business from the sample started with franchising in 1997. This data can be connected with the first wave of development of franchise systems in the former Yugoslavia, bearing in mind that the first domestic franchise systems appeared during the 1980s and especially in the early 1990s. However, a large number of franchise companies of that time no longer exist or do not operate according to the franchise principle. Since 2001, a larger number of SMEs have decided to apply the franchise concept. The second wave of development of domestic franchising systems in Serbia can be associated with the establishment of the Franchising Center at the Serbian Chamber of Commerce at the end of 2007 and the Serbian Franchising Development Association (SURF), which was founded in 2009. The above contributed to the increase of information about the franchise concept and the possibility of expansion of the company through franchise business, with the help and support of professionals. The obtained data of the analysis speaks in favor of this, considering that more than a fifth of the total analyzed companies (21.9%) started their franchise business in the period between 2005 and 2008, and more than a third of the total number of companies analyzed (37.5%) decided to apply the franchise concept in the period from 2009 to 2012. In the period from 2013 to 2016, one quarter of franchise SMEs, started franchise business. Also, it can be noted that the number of SMEs that started their franchise business in the period from 1997 to 2008 is equal to the number of SMEs that started franchising in the period from 2009 to 2012. In fact, more than half of the analyzed SMEs (62.5%) started applying the franchise concept after 2009 (Table 1.).

**Table 1.** Starting a franchise business of SMEs in Serbia

Year of franchise business start	Number of enterprises	Percentage	Cumulative percentage
1997-2000	1	3,1%	3,1%
2001-2004	4	12,5%	15,6%
2005-2008	7	21,9%	37,5%
2009-2012	12	37,5%	75%
2013-2016	8	25%	100%
Total	32	100%	

#### 4. FRANCHISING IN THE REPUBLIC OF SERBIA: PERSPECTIVES AND RECOMMENDATIONS

Citizens' awareness of the importance of franchise systems is much lower in the Republic of Serbia than in Western and neighboring countries. It is necessary to work more intensively on the popularization of the concept of franchising in the Republic of Serbia, considering the number of advantages that are realized by using this system (Stefanović and Stanković, 2013). Raising the awareness of SME owners about the advantages of franchising would contribute to more companies considering this business concept as their business opportunity. Therefore, greater promotion of franchising as a business concept is necessary while creating a clear picture of franchise business in the Republic of Serbia. Franchising is a very good choice for business expansion, especially innovative business ventures with a good idea that can be successfully multiplied.

SMEs from the Republic of Serbia that recognize franchising as a business opportunity are still insufficiently informed about who they can ask for professional help. In addition, the system of consulting professional assistance and support for franchise companies is still underdeveloped. With the aim of providing greater institutional support to existing franchised SMEs and companies that plan to develop their franchise system in the future, it is necessary to strengthen existing institutions that deal with small and medium-sized companies, especially franchise SMEs. In addition, it is more than necessary to establish specialized institutions that will exclusively deal with the provision of franchise consulting. In order to achieve the above, it would be desirable to provide education for franchise consultants and training abroad.

In addition to strengthening existing institutions and initiating the establishment of new institutions in the field of franchising, it is necessary to encourage the activities of the non-governmental sector that deals with small and medium-sized enterprises, with a special emphasis on franchise SMEs. Very often, franchise companies or companies that want to develop a franchise system are not sufficiently aware of the complexity of franchising as a business concept. In this regard, it is necessary to organize trainings and educational workshops for existing and potential franchisors on how to develop and create a strong and stable franchise system. On the other hand, it is necessary to educate potential franchisees about the very way franchise business functions, as well as their rights and obligations.

In the Republic of Serbia, business owners often think that they can develop their brand and build a stable franchise system by themselves, without additional advisory assistance. Already during the development of the franchise system, they face numerous problems, most often of a legal nature, due to the still insufficient regulation in this area in Serbia. Also, some of the most common problems that can occur with companies that have not properly established their franchise system are the selection of inadequate



franchisees, slow royalty collection, and even damage to the company's brand and image due to disinterest or lack of motivation of franchisees to contribute to a better operation of the franchise system.

Franchisors can very often face the same or similar problems during the establishment of the franchise system, the selection of franchisees and the entire operation. Therefore, it would be constructive for franchise SMEs from the Republic of Serbia to network in order to exchange experiences and strengthen their franchise networks. Advice from existing franchise SMEs that have been successfully operating for many years in accordance with the franchise business concept can greatly facilitate business expansion for companies that are just planning to engage in franchising. An innovative idea that could help existing and potential franchisors and franchisees is the launch of a website in the form of a social network that would simultaneously be a forum for exchanging experiences, both between franchisors and franchisees. The social network would not have to be limited only to the Republic of Serbia, but could gather franchise companies from the entire region. One of the key potentials of this social network would be that it could become a virtual meeting place for franchisors and potential franchisees.

## CONCLUSION

In the Republic of Serbia, the franchise way of doing business is still in development. As much as half of franchised SMEs from the Republic of Serbia are small businesses. Headquarters of the largest number of franchised SMEs from the Republic of Serbia are in Belgrade, Novi Sad and Niš. The research results show that almost 2/3 of the analyzed franchise SMEs in Serbia decide to enter the foreign market. Franchise SMEs from the Republic of Serbia that apply franchising as an internationalization strategy most often decide to enter the markets of the former SFRY countries. Franchise SMEs from Serbia that already apply franchising as an internationalization strategy are planning further expansion through international franchising. In addition, the results show that as many as 91.7% of franchising SMEs that are currently applying some other internationalization strategy plan to enter the foreign market through franchising in the coming period. As the most attractive markets for expansion, for starting an international franchise business, neighboring countries and EU member states are mentioned.

One of the biggest problems in the field of franchising in the Republic of Serbia is insufficient information about franchising as a business concept and internationalization strategy. Therefore, it is necessary to promote this concept as a chance for successful business. The above requires the professional support of competent institutions. In addition, for existing franchise companies, and especially for SMEs, which usually have limited financial and human resources, it is very important to provide free consulting expertise. This is especially important if franchised SMEs from the Republic of Serbia decide to operate internationally through the implementation of franchising, bearing in mind the complexity of this business. Franchisors often face the same or similar obstacles when conducting business activities, both in the country and abroad. For this reason, it would be constructive to form networks of franchisors within which they will be able to exchange experiences, both among themselves and with franchisees. At the same time, such a network would not have to be limited to the Republic of Serbia, but could represent a gathering place for franchise companies from the entire region. As an overall conclusion, it can be pointed out that education is the key to everything. In this case, the

education of the general public, as well as the education of franchise consultants and franchisors and franchisees, is of crucial importance.

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