

# **Franchising: A choice of entrepreneurship in the Honduran fast food industry**

Taria Andino Ruiz ([truiz@ies-unah.org](mailto:truiz@ies-unah.org))

Faculty of Economics, Administrative and Accounting Sciences  
National Autonomous University of Honduras (UNAH)

Jesús David Argueta

Faculty of Economics, Administrative and Accounting Sciences  
National Autonomous University of Honduras (UNAH)

Cesar Ortega Jiménez

Faculty of Economics, Administrative and Accounting Sciences  
National Autonomous University of Honduras (UNAH)

## **Abstract**

The manner at which the fast-food industry progresses in a still unchecked worldwide pattern, requires rigorous, extreme and reasonable strategies that aid the investors visualize a safer business scenario, parting from the above, it is of great importance to consider the use of the franchising process as an alternative for companies to aim for sustainability, growth and expansion. For this reason this study aims to demonstrate that the process of franchising can boost competitiveness in a significant manner over the fast-food industries allocated in the city of Tegucigalpa, Honduras and thereby unveil the advantages and disadvantages of the method.

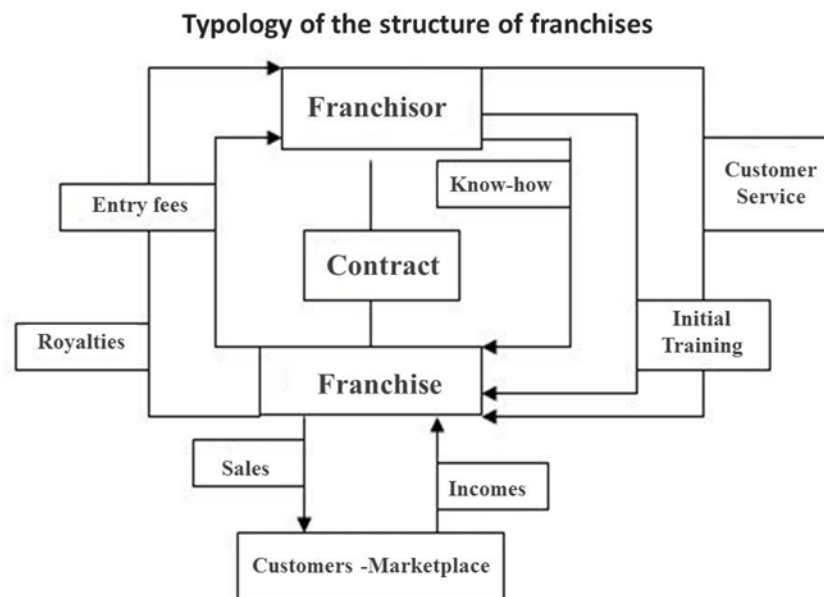
**Keywords:** Franchising, Franchisor, Franchisee, Entrepreneurship.

## **Introduction**

While approaching the Franchising concept as a business technique/tool, one may appreciate can be explored back in earliest 200 BC, when the Chinese company named as “Kas” developed as a franchised chain store, that distributed food with a definite trademark throughout all Asia. (Swart, 2007) There are many definitions and explanations for the origins of the term “franchising” but the (International Franchise Association ) described it as the agreement or license between two legally independent parties (G. Combs, J. Ketchen, & C. Short, 2011) pg 413. The franchise and franchisor in which the franchisor offers or is obligated to maintain a continuing interest in the business of the franchise in such areas as

know-how and training wherein the franchise operates under a common trade name, format or procedure owned by or controlled by the franchisor, and in which the franchise has made or will make a substantial capital investment in his business from his own resource.

Now a days franchising has become more and more popular as a strategy for wealth creation and social development in different countries, in some cases being seen as an alternative for companies to be prepared to enter new markets or receive other business in the same industries. In this research we explore the relationship between franchising and entrepreneurship in a holistic manner, gathering information of the growing interest of franchising locally in the city of Tegucigalpa. We subsequently discuss the, the keys competence, the pros and cons of franchising a company in the fast food industry among others trough a SWOT analysis. Arguing that the franchising provides opportunities for aspiring entrepreneurs to gain knowledge and experience. To have a better understanding and advance on this study we present a typology founded on the franchise structure to date, illustrated.



*Figure 1- self interpretation source (An Introduction to Franchisig , 2010)*

### **The Investigations key issues to answer**

- Are the inhered competencies of franchise a viable strategy to boost the fast food industries allocated in the city of Tegucigalpa?
- What are the advantages and disadvantages of franchising process?
- What is required to start a new franchising business in Honduras?
- Are there incentives from the Honduran Government to fast food companies?

Main objective:

The development of an overall diagnose of the franchising method as a choice of entrepreneurship in the Honduran fast food industry.

Specific Objectives:

- To determinate the effectiveness of franchising as a competitiveness strategy.
- A general description of the pros and cons of the franchising process.
- To conclude is there a growth in the fast food industry in the city of Tegucigalpa.

*Table No 1-variables description, self-interpretation of the analysis*

Variable	Objectives	Variable Categorization	Unit of Analysis
Franchisor	<i>Correlative analysis among variables</i>	Recieves fees	<i>Fast Food Industry</i>
		Owens the trademark	
		Provides trainig	
		Provides support in advertising and marketing	
Franchise		Pays fee	
		Use trademark	
		Expand business with franchisor support	

*Reference from source: variable interaction, Jesus Argueta, IAMB Conference, Lisbon Portugal, "An Empirical Approach towards the Internationalization of the Honduran Higher Education Programs", 2013.*

## Investigation Methodology

The investigations methodology of this analysis is oriented trough a 4 step process, defined as:

- 1ST STAGE: An overall description of the franchising method in fast food companies and its relation to entreneurship.
- 2SD STAGE: The quantification of the fast food companies in the city of Tegucigalpa.
- 3RD STAGE: A theoretical exploration of competitive situation within the fast food industry.
- 4TH STAGE: Analysis of franchising operation, the size of the fast food market, potential growth, trends and macro environmental factors in the city of Tegucigalpa.

Nonetheless, it is worth mentioning that the inputs and outputs gathered on this analysis, embraces only the 1st step previously described.

This document describes resumes the analysis upon 2 mayor evaluation axis:

- The description of the Honduran fast food industry.
- The opportunities franchising offer to entrepreneurs in the city of Tegucigalpa.

### **Literature Analysis of the franchising fast food companies in Honduras**

The fast food industry, also known as Quick Service Restaurants (QRS) (A.Kwansa & Parsa, 2010), has been serving up tasty morsels for as long as people have lived in cities. Fast food franchises focus on high volume, low cost and high speed product. Fast food franchises focus on high volume, low cost and high speed product. Commonly food is preheated or precooked and served to-go, though many locations also offer seating for one site consumption, as for stands, kiosks or sit down locations, food is standardized and shipped from central locations, since consumers enjoy being able to get a familiar meal in each location, and menus and marketing are the same in every place. The first franchising concept starting operations in Honduras dates back to the late 1980, with the establishment of Pizza Hut. (Franchising in Honduras)

In Honduras for almost ten years fast food franchises were exempt from paying income tax, due to the Tourism Incentives law which was issued with Decree 314-98 which became effective on April 23rd, 1999. This law arises through the economic destruction caused by Hurricane Mitch in Honduras in 1998, in order to implement strategic actions to make possible the economic recovery, stimulating higher income streams of international visitors were some aspects that Members of Congress took account to give life to the Tourism Incentive Law (LIT) in Honduras. Similarly allowing more equitable participation of host communities of tourism in the country and the planning of competitive services that enable the mobilization of current rating to domestic destinations were other points that were considered and included in decree 314-98 which was published in the official Journal ``La Gaceta`` in March 1999. (Instituto Hondureño de Turismo) However the June 5th 2002 the food and beverage companies (fast food), land transport and schools in tourism were excluded from the beneficiaries of the law ( Reforma del Decreto No. 314-98 La Gaceta). Nevertheless while the LIT was in effect, the fast food companies were empowered to achieve exemption for the next 10 years.

According to the laws of Honduras, the franchise agreement (Franchising) is an atypical contract not governed by the Commercial Code, but that may well be held in our country because the same Commercial Code states that "the parties are free to determine the content contracts within the limits imposed by law. They may also enter into contracts that do not correspond to the types of the Commercial Code sets but pursuing interests worthy of legal protection``. (Codigo de Comercio ). However this has not stopped that in our country's the commercial franchise has developed a lot, especially in the field of fast food and every day seen more businesses operating under franchise agreements as well as local companies that have developed and grown substantially through Franchising.

Honduras is the fourth country in Central America With more franchises; first is Guatemala with 250 franchises, being most of these franchises in Honduras from the fast food industry. Which has attracted the investment of entrepreneurs such businesses in particular North American. Just in 2006 more than 150 American companies operate in

Honduras, US franchises are represent in increasing numbers. (Honduras Country Study Guide, 2013). Parting from the above it is of importance to publicize the requirements to apply for a franchise agreement, shown on the following table.

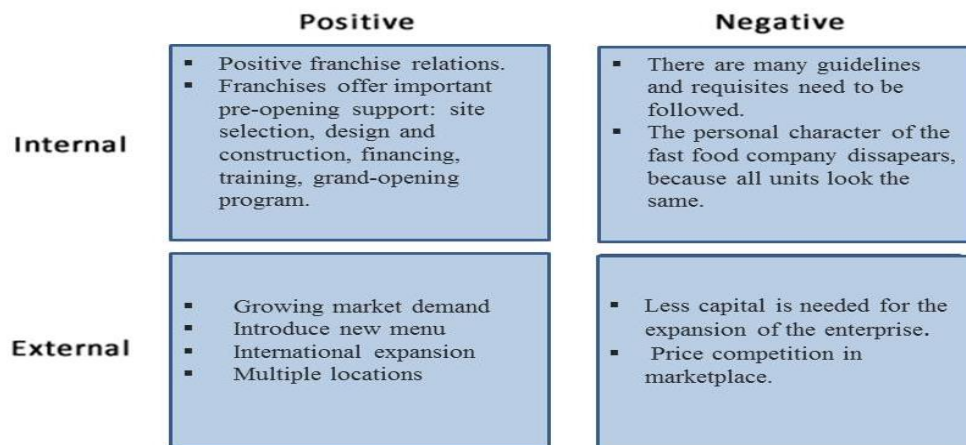
*Table No 2-Requirements for a franchise in Honduras*

Requirements for a franchise
<ol style="list-style-type: none"> <li>1. Application addressed to the Minister</li> <li>2. Authenticated Proxy</li> <li>3. Order issued by the Ministry of Tourism</li> <li>4. Articles of Incorporation of Company</li> <li>5. Order in original and 5 copies on letterhead and signed by the Legal Representative</li> <li>6. Proforma Invoice and 5 copies</li> <li>7. Copy of Legislative Decree containing the contract signed with the State of Honduras.</li> <li>8. Ballot 200 lempiras (equal to 10 \$) for issue resolution dispensation</li> <li>9. Ballot 200 lempiras (equal to 10\$) for issuing Certification dispensation</li> <li>10. Evidence of Solvency of DEI (Executive Revenue)</li> </ol>

*Source:* (Secretaria de Finanzas , 2012 )

### **The pros and Cons of franchising a fast food company (SWOT)**

This section compare the advantages and disadvantages of franchising trough one of the most known business model SWOT. The main goal is to recognize the key internal and external factors that are important for a fast food company to achieve the object.



*Figure 2- Pros and Cons of franchise - fast food industry self interpretation from source (Lamba, 2008) (Swart, 2007) (Awe)*

All the above advantages need to be taken into consideration as a part of key competences to have a high performance franchise, is due to this advantages and disadvantages that is presented an analysis based on the Mckinsey framework who developed a 7s model, which mention the improving organization effectiveness, that consists of seven aspect of an organization to be balanced. These factors are in hard (strategy, structure, and systems) in soft (skills, staff, style and shared values) In this regard, the hard factors are easy to grasp, however the soft factors are difficult to estimate. ( Osman, I., Anouze , & Latef , 2014) pg 20.

By referring to the 7s model the strategy of the fast food companies should look at the conception of a plan for the allocations of resources, so that eventually reach the identified goals, customers and competition. About structure the number of employees due to the size of the operation, the way the unit organization`s related to each other: functional division, networks, among others. The system that consist on training time, the Procedures Processes and routines that characterized how the work is to be done. Skills represent the knowledge of marketing, distinctive capabilities of the personality of the company as a whole, core competence. Staff is the numbers and types of personnel within the organization. Style as the cultural style of the organization, making sure you get all the necessary information of the management style. And last but not least the shared values which are the fundamentals ideas, provides the tools and knowledge to allow entrepreneurs to successfully compete in the franchising fast food industry.

Finally this is how the Potential franchises engaging in this type of investments should also conduct extensive market research; commit to building a long-term business plan, allow enough flexibility to adjust the existing business model to accommodate local culture differences, have a legally bound franchise agreement, good training program, and work out a development for master licenses realistic to the Honduran Market.

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