

# Franchising the way to more Bumi businessmen

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FRANCHISING, the proven and acceptable method of distributing products and services, will be one of the means to create a resilient and progressive Bumiputera Commercial and Industrial Community, Prime Minister Datuk Seri Dr Mahathir Mohamad said.

Describing franchising as a welcome change, he called for more franchises in the country, adding that government-owned companies should also consider the system.

"Business through franchising will create a higher level of retailing and service management, increased productivity, more efficient distribution of products and services, increased technical assistance, and a bigger tax base," he added.

Dr Mahathir said this in his keynote address when opening the Malaysian International Franchise Conference and launching the Franchise Development Programme in Kuala Lumpur yesterday.

Under the programme, 10 franchisors have offered franchises to 30 people selected by the Franchise Development Division in the Implementation and Coordination Unit (ICU) of the Prime Minister's Department.

The Prime Minister said methods of operating businesses have changed and businesses or services which operate independently may not be suitable anymore except for those with a large capital base.

Sole or joint proprietorships also do not promise higher returns and do not enjoy the benefits of economies of scale. These businesses can expand, but takes time, huge capital and hard work.

"In developed countries,

sole proprietorships or mom-and-pop stores have been replaced by franchises. This has changed the shape of businesses in the US, Canada, Britain, France and Japan," Dr Mahathir said.

In the US alone, he said, the more than 558,000 franchise units in 1992 contributed about US\$803 billion (US\$1 = RM2.75), or 35 per cent of the retail sales turnover, and created eight million job opportunities.

It is estimated that the sales turnover of the franchise units will reach US\$1 trillion in 2000 with one franchise unit being opened every six-and-a-half minutes, he added.

"Franchising is attractive as its success rate is high compared with small businesses. Studies have shown that only 5 per cent of franchises fail, against 62.2 per cent of new non-franchise

businesses," he said.

Franchising has also become successful in Japan, he added, with a growth of 182 per cent from 48,500 units in 1980 to nearly 137,000 units in 1990, while sales shot up by 323 per cent, from US\$14 billion to US\$59 billion, during that period.

He said the successful implementation of franchising needs mutual trust and collective responsibility between the franchisor and franchisee, with the franchisor wanting to protect his brand name and trade secrets while the franchisee has to take care of his entrepreneurship and profits from the investment.

The Prime Minister said partnership in businesses such as franchising is suitable as it will help to create a good business network. "The marriage or partnership through franchising is one of

the most important aspects of achieving Vision 2020.

"We have to accept the reality that our country in the 21st Century will not have businesses which are sole proprietorships as family businesses cannot be used as a growth strategy," he added.

If the franchising system is used, family businesses can still be expanded, with each family owning and operating an outlet, he said, adding that Bumiputeras who are committed and have capital can participate in such ventures.

"However, this system is not a way to trade without capital or risks as it is a business method and not a system to get free money," Dr Mahathir warned.

He stressed that the system should be a creative and innovative strategy to create new business outlets, noting

that an attraction of the system is that companies can expand their businesses without adding capital or workers.

"Franchising is a business philosophy that combines an established and reputable company with a franchisee who has the initiative, capital and knowledge of the local market," he added.

Dr Mahathir said franchising allows businessmen to manage their investments, unlike investments in stocks, which do not promise a part of the company, or say in determining its policies.

Returns from a franchise are similar to, if not more than, that from the stock market, but this does not mean that investing in the local bourse is not good, he said.

"We have to be careful and not expect easy wealth. We can invest in the market but it is not for just playing around," Dr Mahathir added.

He welcomed the formation of the Malaysian Franchise Association, and felt it should promote the franchise concept aggressively and comprehensively to attract more entrepreneurs.

In this regard, he suggested that franchising not just concentrate on high-capital ventures but also services such as hair-dressing, shoe-repair and the hospitality business.

Meanwhile, Malaysian Franchise Association chairman Datuk Adzmi Abdul Wahab said it aims to get another 50 franchisees under the ICU Franchise Development Programme this year.

He said another 15 franchisors, including five foreign companies, have expressed interest in joining the scheme.

Adzmi is also Edaran Otomobil Malaysia Bhd's managing director.