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"A World without Franchising"

1. It would not be too difficult for us in Malaysia to imagine life without franchising. That is because the franchising way of doing business is relatively new in Malaysia. Certainly a person of my age remembers well the business environment where franchising was unknown.

2. We could not think of any other way of doing business other than the personally owned or at most the family-owned business in those days. If they were big enough the company would be registered as a private limited company. There would hardly be any branch. The management would be by members of the family. Professional managers were quite unknown.

3. There would be a few public limited companies. These joint stock companies were introduced by the Europeans. Trade was growing and bigger capital was needed. Shares were offered in order to raise capital. The East India Companies of the different European nations were good examples of public limited companies, limited because they could go bust and all the shareholders would be bankrupted. By having limited liability, the shareholders would not be required to make good all the losses.

4. But within each town in the developed European countries the papa and mama shops continued to thrive, coexisting alongside the few big departmental stores which were usually public limited companies but could also be family owned or family initiated.

5. Slowly the management of public limited companies were placed in the hands of professional managers. They were not specially trained nor did they hold MBAs from universities. They usually rose from the ranks, and often they would be relatives of the principal shareholders.

6. In Malaysia the Indian Muslims owned provision stores and small pharmacies. They were able to serve the needs of the town. Each of them would be family owned and have no branches, just the one store. Later the Chinese set up provision shops to cater for the few Europeans in each town. Again they were family owned.

7. Restaurants operated by Indian Muslims and Chinese were again owned by individuals or families. There would be no branches, certainly not in distant towns.

8. With limited capital and with management by members of the family expansion of business depended largely on there being new entrepreneurs, usually from among the employees in the different shops. The towns and cities could grow only slowly. Occasionally a single shop house would be built by a developer and rented out to an entrepreneur. Or the entrepreneur could build his own shop.

9. In Malaysia the usual practice was for shopkeepers to live on the floor above the shops. This meant the demand for housing was limited. There was no housing estates as such. People would buy a plot of land to build their own house if they were not in the retail business. Retailers lived above their shops.

10. During the British period British-owned department stores had outlets in their major towns. They were public limited companies incorporated in England. It was seldom for each department store to have branches in the major towns. In Malaysia Whiteway Laidlaw and Co had branches in Singapore, Kuala Lumpur, Penang and Alor Star. So did Robinsons. They sold goods imported from Europe and they catered largely to the European community. C.K. Tang had one store in Singapore. It is only now that it has branches.

11. It took a long time for the public limited companies department stores to be started by the Chinese. The Japanese took to this concept quite early. Mitsukoshi, Daimaru were among the best known Japanese department stores in Japan and in Southeast Asia during the war.

12. In Europe too, the public limited companies were slow in expanding. But some big department stores like Selfridges, Marks and Spencer and Galeries Lafayette of France did have small stores outside of the capital cities. The smaller towns usually had their own small department stores.

13. The United States was getting a lot of new immigrants. Many of those from Europe were skilled in business. Some were able to restart the businesses they had been in while in Europe. But most could not find enough money to restart or start any business at all. Most of them work in local establishment.

14. I believe that initially even in the United States the businesses were family owned. There were probably some partnerships as reflected in the twin names of the companies. Very early the Americans adopted the limited public company system. There were branches but not too many of them. The immigrants who were employed showed their capability and eventually they were able to own their own businesses. Some of these did very well.

15. Business expansion was still quite slow in the United States at first. But United States Universities began teaching business managements. This was a radical move. Hitherto it was thought that skills in business were inherent. Some people have it and some people just do not. Also the general belief was that

some races were naturally good in business and some just could not do business; they just did not have the aptitude.

16. But the United States Universities showed that anyone can be taught to manage a business. They formulated systems and introduced such ideas as feasibility studies and due diligence. They taught the importance of keeping costs low and prices attractive and competitive. Of course they emphasized the importance of record keeping, of graphs and accounts.

17. We are familiar today with price tags. This is really a new innovation. Before in Malaysia and most of Asia the buyer and the seller had to haggle on the price. Whatever price the buyer finally agreed upon he would still come away feeling cheated.

18. It was fine when life was slow moving and people have all the time to haggle and even go from shop to shop to get the best price. But life is fast-moving today and people want to be able to finish their shopping quickly. They have no time for haggling. Hence price tagging becomes essential. Fixed prices and tagging helped businesses to grow.

19. It also enables shopkeepers to delegate selling to sales people who are not relatives. And the number of items stocked can be increased as the sales persons need not have to memorise the prices of all the thousands of items.

20. Such improvements in management and presentation helped to expand business but still they could not meet the demand of consumers and entrepreneurs or people keen to go into business.

21. Business was seen to be risky because choosing the kind of business, locating it at strategic points, competing with established businesses, capital costs, pricings and a whole lot of things necessary to make the business successful are things which an entrepreneur is usually not familiar with. The fear of failing kept a lot of people out of business.

22. Yet there was clearly a demand for more businesses, especially retailers to cater to growing populations everywhere.

23. Because of the risks before franchising was introduced the world experienced very slow economic growth. Fewer people could go into business. Public limited companies usually operated within the countries where they were registered and very few could venture to other countries. Retail chains also confined themselves to in-country operations. There were no worldwide chains of restaurants and other retail outlets as are seen now.

24. There were virtually no multi-national companies, or non-nationals operating companies set up by the nationals of other countries. The idea that a

business pioneered by the nationals of a particular country could be sold to nationals of other countries to be located there was quite unthinkable.

25. Although not quite the same as franchising, management companies which manage in the name of certain brands such as the hotel management companies would not consider managing establishments in other countries or lending their names to these establishments.

26. Worldwide franchising started with local franchises, expanding to national franchises before going on to worldwide franchising.

27. A world without franchising would not know such famous franchise businesses as MacDonalds, KFC (Kentucky Fried Chicken), Pizza Hut etc. People generally would miss home when traveling abroad if they do not see the familiar and distinctive signboards of the well known franchise restaurants and petroleum retailers.

28. There can be no doubt that franchising has enabled businesses, especially restaurants and retail outlets to expand all over the world. They have helped business to grow and flex economies of many countries to develop.

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