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Franchising system Bachelor Thesis

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Introduction

Franchising is currently one of the most dynamic and modern forms of business for both beginners and experienced entrepreneurs, and its popularity continues to rise. From the franchisee's point of view, franchising appears to be a relatively reliable way of doing business, which can make many things easier, as well as reduce business risks. From the franchisor's point of view, it's a unique opportunity to expand on the market and thus build a strong brand. Nevertheless, we cannot automatically claim that franchising is always associated with success, especially in a highly competitive environment.

The aim of this thesis is to analyze the general characteristics of the enterprise, and based on the theoretical background, and comparison to other concepts, to propose new improvements. The company chosen for analysis is McDonald's, as its concept has proven to be extremely successful around the world. McDonald's has been operating in the Czech market for more than 30 years, and during that time it has developed a strong, but not unshakable, position. Due to the growth of competition in the fast-food industry and the use of new trends in catering, even that company should think about changes and measures to maintain its competitiveness.

The bachelor thesis is divided into three parts: theoretical and analytical parts and improvement recommendations. The theoretical part is focused on presenting the franchising theoretical background, its history, development and also on explaining the most important aspects of this form of cooperation. The first chapter of the theoretical part presents the concept of franchising itself and different views on its concept. After defining it, the basic terms of this field are clarified in more detail, as well as the different franchise types that can be encountered in different fields of business. The chapter concludes by highlighting the reasons why franchising is a successful business model, despite some of the negatives mentioned. The second chapter deals with the historical development and progress of this model throughout the world, especially in the Czech Republic. Special attention is then paid to the role of franchising in the current world economy.

The analytical part is devoted to a detailed analysis of the McDonald's company and its franchising system. The purpose of the first two chapters is to get to know the McDonald's company as a whole, and also to provide information about its

operations within the Czech Republic. The introductory chapter gradually presents different aspects of the McDonald's franchise concept, including the process of obtaining a franchise, the scale of provided support, and others. Based on this data, the strengths and weaknesses of the examined franchising system will then be determined.

The knowledge gained, both from the theoretical and the practical part is used for the bachelor thesis's last part, the aim of which is the formulation of the improvement recommendation. Thanks to this comprehensive data, measures are being defined to take advantage of suitable franchise opportunities and recommendations to improve McDonald's as a company and as a franchising system.

1 Theoretical principles

The theoretical part represents a literature search, the aim of which is to clarify the concept of franchising and other essential terms in this area, to describe different types of franchising, as well as the franchising's advantages and disadvantages. Last but not least, attention is paid to the historical development of this type of business, both in the world as a whole and in the Czech Republic particularly. Special attention is paid to the characterization of the role of franchising in the current world economy.

1.1 Franchising

Franchising is a system that is widely spread throughout the world and is currently used by thousands of entrepreneurs as a modern and attractive form of business that provides many possibilities. The basis of franchising is the long-term business cooperation of two or more entities, where everyone provides their strengths for the purpose of joint business. For example, one entity puts in the business idea, the brand, and its knowledge, and the other provides the capital and premises suitable for the implementation of the franchise.

There are quite a few industries where franchising is applied. However, franchising is most often encountered in businesses focusing on gastronomy, tourism, real estate services, publishing, consultancy, transport, accommodation, staff recruitment, body care and fashion.

The worldwide spread and expand of franchising caused the increase of experts who explore this area in depth. But currently, there is no uniform definition of franchising. The reasons for this are the existence of various forms of franchise systems, the different development of franchising individual elements, as well as differences in the legal regulation of this issue between countries. Therefore, within the framework of this thesis, an overview of several most frequently used definitions will be provided.

According to the Česká asociace franchisingu (2015), franchising is characterized as a sales system through which goods, services and technologies are introduced to the market. It is based on the close and continuous cooperation of partners who are separate and independent from a legal and financial point of view. In addition,

the European Franchise Federation (2016) adds in the European Franchising Code of Ethics that the franchisor guarantees its franchisees the right and at the same time imposes on them the obligation to do business in accordance with the franchisor's concept and the set of certain rules.

In addition, Abell (2013) defines six basic features of each franchise partnership: independence of the contracting parties, economic interest, joint brand usage, identical business model, control of the franchisee by the franchisor and assistance provided to the franchisee by the franchisor.

Franchising can also be seen as a form of business based on which the owner of the product or service procures distribution through affiliated sellers (Khan, 2014). The franchisor selects candidates who will become strategic trading partners, i.e. selling products or services to customers using a proven business model with established policies and procedures.

According to Maillet (2014), franchising is a business relationship where the franchisor grants a license to the franchisee, which gives it the right to use the franchise brand and proven business system. Also, the franchisor usually offers help in starting the business, help with choosing a subsidiary location or negotiating a lease, and even assisting the franchisee with the grand opening. Furthermore, for the duration of the franchise agreement, the franchisee is provided ongoing support in business management, including commercial and technical consultancy. In return, the franchisee provides a revenue share back to the franchisor, usually in the form of a percentage of sales (Seibert, 2019).

Franchising can as well be defined as a tool that allows entrepreneurs to choose a reliable business path and thus get rid of the risk that is closely associated with a business (Ctibor and Horáčková, 2017). Franchising is based on the use of an already verified franchisor's business idea, which has already been tested and can thus be spread further. This dynamic business method is an ideal choice for entrepreneurs who do not have any interesting ideas that could find a suitable application on the market. In these cases, the franchising form of business can provide the necessary motivation, know-how and support (Vojík and Horáčková, 2010).

1.1.1 Basic terms

Like any other field, franchising has its specific terms. Therefore, for a better orientation of the given issue, this chapter will present basic terms that are closely related to franchising. They are briefly presented, for example, by the Česká asociace franchisingu (2021).

A franchise is a license (right) that authorizes its recipient to operate the business model of the franchisor in its own name and on its own account in accordance with its sales concept. It includes rights to use its know-how, business and technical practices, trade name and trademarks. Here the franchisor represents the licensor and offers a proven business concept and its own experience. The franchisor is the owner of all the know-how that becomes the subject of trade with the franchisee. The licensee is therefore the franchisee, who takes over the franchisor's business concept and actually operates the franchise. It is the franchisee who brings the capital to build and run the franchise business and who is actively involved in the operational management of their unit.

The long-term contract regulating the mutual relationship between the franchisor and the franchisee from a legal point of view is then called a franchise agreement. Based on the contract, the licensee receives a so-called franchise package. It is a set of rights, knowledge and other services provided by the franchisor enabling the operation of the franchise. They are based on business experiences that the franchisor has acquired and developed over years of building his franchising system. The package includes, among other things, information about marketing, training, education, controlling, IT, communication, brand and others.

For the mentioned services and the license itself, the franchisee is obliged to pay franchise fees to the franchisor. The specific amount and structure of fees are defined in the franchise agreement. The business, organizational and marketing connection of the franchisor with all its franchisees, which is coordinated and supported through the franchise headquarters, is called a franchise network.

Often, the franchise network is expanded beyond the territory of the country in which it was originally established and is thus operated on an international level. In this case, it is called master franchising. A franchise license that is intended for the territory of a foreign country is called a master franchise. On the basis of this license,

the owner of the franchise concept, or master franchisor, grants the franchise abroad. The master franchisee, i.e. the holder of the master license, is authorized to build and manage a franchise network on the territory of a foreign country. According to the master franchise agreement, the master franchisee acts as a representative of the master franchisor within this territory. This means that he has the right to grant a license and conclude contracts with other applicants for a master franchise (he provides sub-franchising).

1.1.2 Franchising types

Franchising can be divided based on several aspects. Dant and Grünhagen (2014) present the most often mentioned division into traditional product franchising and newer business franchising. This division is presented by Řezníčková (2009) as a division of franchising from a historical point of view. Product franchising is essentially a license to sell branded products after receiving precise manufacturing procedures and data from the franchisor. This type of franchising is typical for franchisees who cooperate with only one manufacturer and thus practically serve as specialized distributors. Nowadays, this form of cooperation is widespread especially among car dealers.

But the more common form of franchising now is business franchising, which is also called package franchising. With this type of franchising, the franchisee has the right to obtain a verified business idea, help in finding a place to set up a business, help in managing their own business and possible financial assistance. This form of franchising is chosen most often by companies that do business in the field of service provision.

The next most frequently used division of franchising is carried out according to the subject of the activity. Within this division, industrial, distribution, wholesale and service franchising are defined (Ctibor and Horáčková, 2017).

Industrial franchising consists of granting a license to manufacture products. The franchisee undertakes to produce according to the concept and specification of the franchisor, and at the same time must observe the agreed quality level. The franchisee can then sell the manufactured goods under the franchisor's trademark. The products are subsequently sold under the franchisor's brand in a pre-defined territory.

In distribution franchising, the main purpose is the sale of products. The franchisee is authorized to trade in products bearing the franchisor's mark in his shop, according to pre-agreed business methods. In wholesale franchising, the main feature is the business at the wholesale level. The franchisee is authorized to distribute certain products only to retailers and not to end consumers. Service franchising focuses on providing services under the brand of the franchise provider. The franchisee thus undertakes to comply with certain rules and regulations in accordance with the business style set by the franchisor.

For the classification of franchising, there are still other forms that were not mentioned above, and they divide franchising into types according to other criteria. According to the exclusivity of the products, it is possible to define a separate type of franchising, which is called minifranchising. This form is used to sell exclusive goods that are intended for a small circle of consumers. The franchisee here has the rights to sell these exclusive products in a defined territory, receives the necessary advertising materials and an initial capital deposit. However, they must adhere to the prices that are precisely prescribed in the concept (Řezníčková, 2009).

Piggyback franchising can also be included among the special types of franchising. These are franchisees connected in one franchise network that sell their products to another franchise network. Also, worth mentioning is branching, which is basically the transfer of an already existing company unit to independent franchisees (Vojík and Horáčková, 2010).

1.1.3 Advantages and disadvantages of franchising

Franchising is often cited as an example of a win-win partnership strategy in business, where both parties benefit equally from the business relationship. But franchising, like any other business cooperation or business concept, brings certain pitfalls and disadvantages. Minimizing disadvantages and maximizing advantages are the goals of both the franchisor and the franchisee. Nevertheless, during this effort, they should not neglect their primary common goals – improving the market position, decreasing costs, achieving better financial administration and organization management (Ctibor and Horáčková, 2017). Further, the advantages and disadvantages of franchising will be presented on both sides, the franchisor and the franchisee, for a more objective assessment.

Franchising from the perspective of the franchisor

Through franchising, the franchisor can achieve faster growth, expand its distribution channels and thus strengthen its position in the selected markets without the need to invest larger funds. By granting a franchise license, the franchisor thus gains a greater direct market share. Therefore, it provides opportunities for a better position in negotiations with suppliers and easier establishment of relations with customers. Since the risk of doing business in franchising is spread over several entities, usually the problem of one of these entities cannot threaten the entire franchising system.

Franchising provides access to capital, managerial skills and local information, which contributes to rapid market expansion (Gonzalez-Diaz and Solis-Rodriguez, 2012). Earning funds from franchisees helps to reduce the costs of opening new own subsidiaries and development know-how and other elements of franchising (Řezníčková, 2009).

The division of labor is also an important factor, which provides considerable convenience in operational management. The franchisor concentrates on strategic tasks, while the franchisee concentrates his activity on operative activities. Thus, franchisors do not have to worry about the recruitment and management of employees, their benefits and wages, as these concerns fall at the level of individual franchisees (Khan, 2014). It should also be noted that franchisees are more interested in running the business than in the case of the franchisor hiring ordinary workers to open new branches.

However, having a lower degree of control over franchisees can work against the franchisor. Despite the exclusive right of control, the position of the franchisor is limited by the fact that the franchisee acts as an independent entrepreneur and control cannot be asserted in the sense of a superior-subordinate relationship. Therefore, the franchisor cannot order the franchisee to do anything that is not regulated in the agreement, because in fact there are two partners (Řezníčková, 2009).

Selection and recruitment of franchisees can also be a significant problem. For the franchisor, it is crucial to find a person or business that will be sufficiently motivated, have financial resources and be aware of the required amount of work, time and

responsibility that must be expended. Also, when choosing a franchisee, the franchisor should keep in mind that in the future this franchisee may damage the good name of the franchise by his irresponsible behavior (Khan, 2014).

Then there is always the possibility that the former franchisee will become a competitor, who, thanks to the acquired know-how, will know the strengths and weaknesses of the franchise. This situation can be occurred mainly because of disagreement with the amount of fee paid by the franchisee (Tamchyna, 2005). However, this situation usually does not occur in franchise systems. Mutual cooperation primarily brings benefits to the franchisee. These are mainly discounts that the franchisor has negotiated for its franchisees and provided marketing support. When considering separation from a franchise network, most franchisees end up realizing that their profits will be lower, and their business management issues will multiply.

Franchising from the perspective of the franchisee

The main and greatest advantage of franchising is the use of a proven business concept. The use of a functional concept, know-how and a well-known brand provides a great competitive advantage. Franchisors equip franchisees with a complete business model that includes marketing strategy, operational manuals, established standards and quality control (Salar and Salar, 2014). By entering the franchise network, the franchisee thus becomes part of a large group of entrepreneurs who have a lot of experience.

Compared to brand new businesses, the percentage of failed franchises is significantly lower. This factor facilitates the negotiations in the case when, to finance the purchase of licenses, the future franchisee needs to receive funds from foreign sources (Salar and Salar, 2014). Also, doing business in the form of franchising requires lower initial costs than in the case of starting an independent business (Dring Consulting, 2009).

Another important positive is getting support and consulting services. The franchisor provides the extensive know-how that the already functioning concept possesses through education and personnel training. The franchisee receives support during the start and thus does not have to have almost any previous experience. Most

franchisors regularly provide their franchisees with tax, advisory, accounting and credit services that are available to them at any time (Řezníčková, 2009).

However, it is important to know the possibility of creating obstacles that, despite the help of the franchisor, can occur. But, compared to running own business, this risk is significantly lower. It can simply be said that doing business in the form of franchising eliminates the risk of bad business decisions resulting from the entrepreneur's lack of experience.

Another advantage that flows directly from the franchisor-franchisee relationship is the reduction of risks by connecting to the franchise network. Operating within the franchising system ensures a better negotiating position with suppliers and other institutions (Franchising, 2010). The franchisee uses the possibility of a much more favorable and cheaper purchase or volume discounts, which he would not have been able to achieve through his own negotiations. Thus, the cost savings are higher than the regular fees paid by the franchisee under the joint contract.

One of the main disadvantages of franchise cooperation is generally considered a certain form of dependence on the franchisor. Although the franchisee operates his subsidiary independently, he is still controlled and influenced by the franchisor (Salar and Salar, 2014). Indeed, the franchisee is obliged to perform only the activity that is stipulated in the franchise agreement and to comply with all the rules of business established by this agreement. In addition, he is obliged to purchase products, services or technologies that are stipulated in the contract. This partially limits entrepreneurial independence and flexibility (Řezníčková, 2009). It causes reducing the ability to effectively respond to changes in the local market or accept certain changes in the entire business plan.

Another burden for the franchisee is the fees for the provided services and the obligation to share the profit from the business activity between themselves and the franchisor (Řezníčková, 2009). In general, the larger, more profitable, and more secure the franchise system, the more the franchisor will pay in fees (Franchising, 2010). Here, on the part of the franchisee, a problem sometimes arises with the alleged inadequacy of the fees for the services provided by the franchisor (Dring Consulting, 2009).

The last risk is closely linked to the advantage mentioned above. Doing business under a well-known brand is generally perceived as one of the benefits of participation in a franchise. The consequence of this is that the franchisee shares the uniform image and reputation of the franchisor. In this case, the franchisor can be adversely affected by the deterioration of the entire brand image or perhaps just one bad experience that the customer had with another franchisee (Česká asociace franchisingu, 2020).

1.2 Franchising development

1.2.1 World's perspective

The first mentions of franchising can be traced back to the times of feudalism. At that time, kings and church officials granted licenses authorizing to carry out certain activities (Nováková, 2008). However, empowered local rulers had to pay fees for privileges such as collecting taxes, brewing beer, trading or hunting. The word franchising itself is derived from a French term that meant exemption from duties and taxes. Before long, this was the term given to the privileges granted by the feudal lord, who granted the right to manufacture or sell products or run business activities (Řezníčková, 2009).

A possible predecessor of the franchising business appears around the year 1600 in Japan. A new system called Norejikai arose there. It was built on licensing a long-time restaurant employee to open his own restaurant. The binding condition was to open a restaurant in a different location, but with the same menu and under the same business name (Ctibor and Horáčková, 2017).

Further signs of franchising appeared in the 18th century in the United Kingdom. Brewers began to offer financial support to pubs in return for the exclusive purchase and sale of beers from them. It is therefore a well-known system of granting licenses for the beer distribution, which is commonly used in today's trade (Ctibor and Horáčková, 2017).

But Singer Sewing Machine Company is considered to be the first user of the modern form of franchising. In the second half of the 19th century, the company came up with the idea of licensing sewing machine repair and maintenance to local merchants across the country. Later, the rights of traders were expanded and they

could become regional sellers (Řezníčková, 2009). At the turn of the century, licenses to bottle soda from the Coca-Cola company began to be granted. Coca-Cola's first partnership agreement dates back to 1899. The price for granting a license at that time was 1 USD (Ctibor and Horáčková, 2017).

The first significant phase of franchising was recorded in the USA at the beginning of the 20th century. It was primarily initiated by the massive development of motoring and traveling. Large networks of car distributors, gas station operators, motels and car distributors began to emerge and work precisely on the principles of franchising (Tamchyna, 2005). It was General Motors that was one of the first to formulate a franchise agreement, thanks to which it obtained an independent dealer with a license to sell cars (Řezníčková, 2009).

Another major expansion of franchising is spotted after the Second World War. Franchising concepts thrived due to the better availability of finance and lower risk compared to starting one's own business. (Rezníčková, 2009). The greatest success was observed in the areas of fast food, restaurant catering and services in the hotel industry. These fields required more support from license providers. The recipients of the licenses thus acquired knowledge related not only to the sale of a product or service but also to business management (Nováková, 2008). In the period between the 1930s and 1950s was established one of the most successful and well-known franchise companies in the world – McDonald's, Burger King and Kentucky Fried Chicken (Michael Seid, 2019).

In the 1970s, after the oil recession, franchising helped solve business problems for many small and medium-sized business owners. Franchising became a popular method in the USA and soon spread throughout the world – especially in Europe. The first penetration of franchising on the European continent was recorded by the Wimpy company. It was a hamburger restaurant that sold a master franchise license in Great Britain in 1955 (Řezníčková, 2009). But the dynamic development of franchising in Europe was noted at the end of the 1980s and the beginning of the 1990s. The European market has proven to be a market with great potential for franchising.

The next stage in the development of franchising as we know it today is the extension of assistance that the franchisor provides to his franchisees. The

franchisee receives help in the form of sharing the experience and best business practices. Today's form of franchise business coincides more with the form of turnkey business, which enables a prosperous position in the market.

1.2.2 Franchising in the Czech Republic

Although the worldwide expansion of franchising occurred in the 1970s and 1980s, in the Czech Republic for a long time it was known only theoretically and by a limited circle of experts. Franchising started to appear in the Czech Republic after 1989. It was caused especially by the fall of communism, which brought about huge changes in the economy. These changes included especially the abolition of the state monopoly and the opening of the market to businessmen from abroad. All this made it possible for franchisors to penetrate the Czech market. The first franchisors included McDonald's, YVES ROCHER and OBI. Despite the positive political situation, there were no conditions for their easy and favorable development (Štanglová, 2016).

The fast expansion was hindered by the already mentioned low knowledge about the functioning of the franchising concept and thus distrust in this type of business. People were poorly informed and lacked experience. Other factors were imperfect legislation and poor legal awareness, which discouraged foreign systems from entering the market in the Czech Republic (Česká asociace franchisingu, 2015). One of the biggest problems was the low capital availability and creditworthiness of entrepreneurs. In the 1990s, the banking sector went through a problematic phase, that led to a lack of funds for small and medium-sized enterprises, which represent the driving force of franchising (Štanglová, 2016).

The key event in the development of franchising in the Czech Republic was the founding of the Czech Franchising Association in 1993. Its main purposes were to support the franchising development and expansion and to strive for betterment conditions in the Czech market for this type of business. The basic tasks of the Czech Franchising Association are (Česká asociace franchisingu, 2022c):

- representation and promotion of business in the form of franchising;
- association of franchise subjects;
- striving for clear legislative regulation of franchising;

- providing important and useful information about franchising;
- assistance to association's members in their activities;
- asserting the ethical principles of franchising.

Currently, the Czech Franchising Association presents on its website 57 members, who operate in many different sectors, such as real estate services, educational services, gastronomy, banking and financial services, trade, etc. The members of the Czech Franchising Association include not only large and well-known international companies but also smaller domestic franchising companies (Česká asociace franchisingu, 2022a).

Franchising in the Czech Republic really prosper only in recent years. Although Czech franchising does not have a long history, it is an increasingly widespread method of doing business. There are even many franchising concepts created in the Czech Republic. The franchising is used in the Czech Republic mainly in the field of small and medium-sized businesses. It can be used by both legal entities and individuals. Franchising is most often applied in trade, services and gastronomy (Česká asociace franchisingu, 2022b).

In the Czech Republic, there is no legal obligation to register franchise systems, therefore no relevant and verified data are available. However, it is possible to rely on the freely available data of the Czech Franchising Association, the European Franchising Association and the consulting company PROFIT system franchise services s.r.o.

According to the estimate of the Czech Franchising Association, there are currently around 350 franchising networks in the Czech market (Krajča, 2022). Over the past 10 years, approximately 150 franchising concepts have been added. According to Jan Gonda, president of the Czech Franchising Association, their number could double within twenty years. In this way, the Czech Republic could catch up with other countries in Western Europe (Štuková, 2020).

Although the first franchise systems that appeared in the Czech Republic came from abroad, domestic systems are currently predominant. Of the total number of franchises, originally Czech franchising concepts have a share of around 59% (Krajča, 2022). According to data from the European Franchise Federation (2015), the dominance of domestic systems over foreign ones is typical for most European

countries. However, domestic systems in the Czech Republic do not rely only on the domestic market. In 2014, there were already 43 domestic systems that expanded to the foreign market (PROFIT system, 2015). The most frequently considered countries for export are Slovakia, Germany, Poland, Hungary and Russia (Krajča, 2022).

From the point of view of the business fields in the Czech Republic, services prevail over trade. The Czech Franchising Association (Česká asociace franchisingu, 2015) states that 70% of franchise systems operate right in this area. However, the preponderance of services over trade is also confirmed by the PROFIT system (2015). Concepts from the field of gastronomy, including fast food, of real estate agencies, nutrition consultants, fitness and education have the largest representation in the field of services. Concepts from the field of fashion, cheese, farm food and cosmetics are also numerous represented (Krajča, 2022).

1.2.3 Franchising's role in the modern economy

Currently, franchising can be found in almost all countries of the world. The largest presence in the franchise market has the United States, which is referred to as the cradle of franchising. Other countries where franchising is widespread include Canada, Australia, Brazil, China, Pakistan, Argentina, Japan, South Korea, Mexico, Russia, Egypt and India (Orgonáš, Šétaffy and Rak, 2017).

Entrepreneur magazine announces the Top Global Franchises Ranking, which evaluates 5 pillars – costs and fees, franchisor support, size and growth, brand strength and financial stability (Entrepreneur, 2022). Table 1 on the next page lists the 10 franchises placed at the top of the ranking.

Traditionally, the area of gastronomy has the largest representation in the below table, as half of the listed companies operate in the field of fast food. Of the entire list of franchises, more than 20% are related to gastronomy. Franchises from the hotel industry, real estate agencies and fitness centers are also abundant among the first hundred. Franchises from these areas are also presented in the top ten of the ranking. Other areas that are quite well represented include various services related to repairs, cleaning, renovations or health care. As in previous years, most franchise concepts from the ranking originate from the United States, confirming its designation as the cradle of franchising.

Table 1. Top 10 global franchises

No	Franchise on me	County of origin	Industry
1.	KFC	USA	Fast food
2.	7-Eleven	USA	Retail
3.	McDonald 's	USA	Fast food
4.	Dunkin'	USA	Fast food
5.	Taco Bell	USA	Fast food
6.	Pizza Hut	USA	Fast food
7.	Kumon	USA	Tutoring
8.	Hampton by Hilton	USA	Hotels and Motels
9.	Anytime Fitness	USA	Fitness
10.	Century 21 Real Estate	USA	Real Estate

Source: (Entrepreneur, 2022)

The estimated annual turnover in franchising within the European Union is around 230 billion EUR, and the share of franchising in GDP is about 1.86%. Compared to the world, however, these are still rather unsatisfactory values. For example, in the USA, the turnover is estimated at 870 billion USD and the share of GDP is then 5.95%. In Australia, the share of GDP is even 10.83% with a turnover of 130 billion USD (Orgonáš, Šétaffy and Rak, 2017).

Franchising is beneficial from an economic and social point of view. Above all, it functions as a means that facilitates market entry for new entrepreneurs. Franchising supports and develops small and medium-sized businesses, which are the driving force of economic development. It gives them the opportunity to gain a number of competitive advantages that are usually available only to large trading companies. An extensive franchise network can thus compete with large global companies, which small and medium-sized entrepreneurs themselves could hardly do. In addition, by participating in the franchise franchisees gain business experience that they can later apply to their own projects (Ctibor and Horáčková, 2017).

So, franchising contributes to the development of the entire business environment. Also, franchising networks contribute to job creation, they help with the more productive and economical use of business resources such as know-how, labor and capital. However, there are also certain risks from a macroeconomic point of view. These can be seen in the possible monopolization of products or services by an expanding franchise network or in the dominance of several competing companies (Řezníčková, 2009).

The development of franchising is closely connected with a number of changes taking place in the world economy and society. Based on a report by the International Franchise Association, Harrington (2013) summarized three key long-term trends of worldwide franchising. They are internationalization, the increasing use of technology and the increasing number of women and minorities among workers. The trend of robotization is highlighted in the field of using new technologies. Robotization is indeed responsible for the loss of many jobs. However, it could create new jobs for managers and humans who can handle work that is too complex for robots (PROFIT system, 2017). Equalizing the number of women and men and increasing the proportion of minorities among employees is caused by the development of modern ethics, which strives for equal status for each member of society. On a global scale, the striving for equal status between franchisors and franchisees is also observed, leading to total cooperation, so-called partner franchising (Entrepreneur, 2022).

The rising living standards lead to another significant trend, to wit a change in consumer behavior. Consumers are more oriented toward socially responsible companies, which take care of the environment and support charity. This is mainly due to the increasing influence of the younger generations - millennials and generation Z. They prefer socially responsible companies that are not just looking for profit. There is also a more noticeable influence on franchising by the youngest members of the baby boomer generation. People belonging to this generation want to live better and longer, so the demand for all home care and transportation alternatives is growing, creating new opportunities for franchises (Goldberg, 2017).

2 Analysis of the McDonald's franchising system

This part will be devoted to a detailed analysis of McDonald's as a franchising system. The analysis will be carried out within the framework of the Czech Republic. In the beginning, the introduction of the company itself and its activity on the Czech market will be given. Next, attention will be focused on individual aspects of the franchising system at McDonald's.

2.1 Company overview

McDonald's has become a part and a typical symbol of globalization, which brought with it the linking of markets and cultures. At the same time, it is one of the most famous franchise concepts in the world. McDonald's is now the number one fast food company in the world by its brand value (Statista, 2022). McDonald's (2022a) states that its mission is *"to make delicious feel-good moments easy for everyone"*.

The first McDonald's restaurant was founded by brothers Richard and Maurice McDonald in 1940 in San Bernardino, California. In 1954, Ray Kroc obtained from the McDonald brothers the right to act as an exclusive franchise agent, and a year later the first McDonald's franchise branch opened. The primary vision of the company's management was for intensive growth within the United States, where thousands of McDonald's restaurants were planned to open. Nevertheless, McDonald's continued to grow and expand into international markets since 1967 when its restaurants were opened in Canada and Puerto Rico (McDonald's, 2022b). During the following decade, McDonald's broke into Japan, Australia, Germany and Great Britain, and then actively expands into the Central and Eastern Europe market in the 1990s (McDonald's, 2022c).

Currently, McDonald's has over 39 000 restaurants in more than 100 countries of the world, and besides around 93% of restaurants are operated by franchisees (McDonald's, 2021). It can be said that the words franchise and McDonald's are synonymous in the world. The company's strategy is to have its restaurants wherever customers need them. And franchising is one of the key factors that made it possible.

2.2 McDonald's in the Czech Republic

McDonald's entered the Czechoslovak market on March 20, 1992, with the opening of the first McDonald's restaurant in Prague's Vodičková street (McDonald's, 2022c). This year, 2 more restaurants were gradually opened in Prague. The result was that McDonald's total sales during the first year of its operation on the Czech market exceeded 121 million CZK (Špačková and Kunc, 2017). The first restaurant outside of Prague was opened in 1993 in Ostrava. In the same year, the first Drive Thru restaurant opened, allowing car drivers to make orders without getting out of their cars (McDonald's, 2022c).

During the first years, most of McDonald's sales were invested in the business's development. Such large initial investments resulted in a rapid expansion of the company, which was reflected in the number of restaurants opened in the Czech Republic (Špačková and Kunc, 2017). The quick occupation of the market and strategic places for restaurants due to the growing competition turned out to be the right choice of McDonald's management.

Another significant success for the company was the opening of the first McCafé in 2009. The combination of fast food and a coffee shop turned out to be a very good strategy. Within 18 months, 19 McCafé cafes were opened (McDonald's, 2022c) and by the end of 2022, the McDonald's Czech network has 73 restaurants of this type (McDonald's, 2022d). During 2017, most McDonald's restaurants underwent renovations, which introduced a new generation of restaurants to the market. The basis of the reconstruction was the digitization of the ordering process through the introduction of special self-service kiosks where the customers can make orders on their own (McDonald's, 2018).

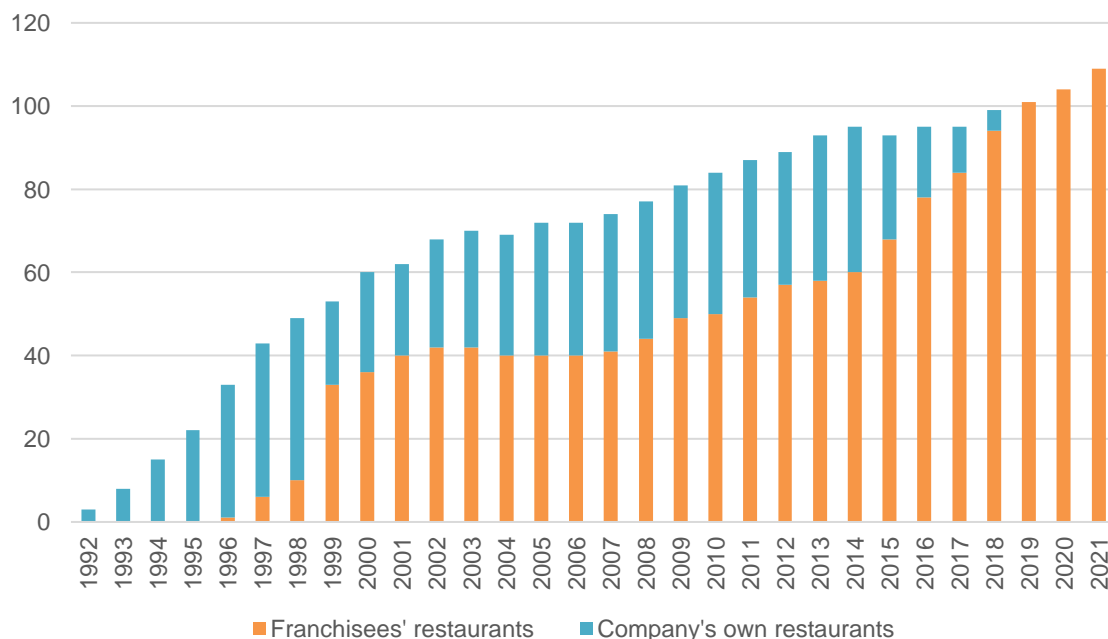
The great merit of McDonald's within the Czech Republic is that the company opened the way to the Czech market for many other franchising chains and thus helped popularize franchising as a business concept. The first franchise McDonald's restaurant in the Czech Republic was opened in 1996 (Špačková and Kunc, 2017). The following years were marked by the transition from own restaurants to a franchising system.

Figure 1 on the next page shows the changes in the number of the company's own restaurants and restaurants operated by franchisees. A comparison of the analyzed

data shows that 1998 was one of the main years in the history of Czech McDonald's, when a significant part of its own restaurants was transformed into franchisees'. Since 1999, figure 1 shows a continuing trend of growth in the share of franchise restaurants over own restaurants. The decreasing number of own restaurants reflected McDonald's expansion strategy. This strategy consisted in building a restaurant, which is subsequently sold to a franchisee. The main reason for this strategy is that an entrepreneur who has his own money in the restaurant is much more efficient, can increase sales more aggressively, fight for every customer, and treats his restaurant as a family business.

From 2019 all McDonald's restaurants in the Czech Republic are in the hands of local entrepreneurs. In total, there are now 109 restaurants throughout the country, which are in the hands of 22 Czech franchisees, i.e., licensing partners (Ministerstvo spravedlnosti ČR, 2022). So, it is not an exception when one franchisee operates several McDonald's restaurants simultaneously. Such expansion of the franchising network led to the fact that currently McDonald's is among the largest employers in the Czech Republic and employs more than 5,000 people (McDonald's, 2022e).

Figure 1. Number of McDonald's restaurants from 1992 to 2021



(Source: Špačková and Kunc, 2017; Ministerstvo spravedlnosti ČR, 2019; Ministerstvo spravedlnosti ČR, 2020; Ministerstvo spravedlnosti ČR, 2021; Ministerstvo spravedlnosti ČR, 2022)

2.3 McDonald's franchising system

There are many reasons to apply for a McDonald's franchise. The key advantages can be briefly summarized in three points: a great brand, a high level of support, and a business model that is recognized worldwide. As mentioned before, McDonald's is a leader in its field, therefore the opportunity to become a part of it attracts many entrepreneurs.

For its franchisees McDonald's provides support just from the beginning of cooperation in the form of annual training for franchise applicants. Furthermore, during the entire partnership, the franchisees have at their disposal a complete information system for the restaurant's operation, and a consultant from McDonald's, who helps in solving daily operational matters. Franchisees also have access to the service center department, which provides support in specialized areas for the entire period of cooperation. McDonald's employs experts in finance, management, logistics, real estate, construction, and others who ensure that McDonald's remains at the forefront of its industry (McDonald's, 2022e).

Another big advantage for franchisees is that there is no need to deal with the promotion of the brand, as it is provided within the framework of national marketing. It should also be mentioned that banks consider business under the McDonald's brand as a low-risk business. Therefore, they are more willing to provide financing and give offers with very favorable terms (McDonald's, 2022e).

However, getting McDonald's franchise is not easy at all. Certain conditions and criteria must be met, as well as a sufficient amount of own resources. The franchise agreement is concluded for 20 years (McDonald's, 2022f). By granting a franchise, the franchisee becomes the owner of the restaurant's equipment and acquires the right to use the McDonald's brand and its associated know-how (McDonald's, 2020).

Franchise McDonald's is distinguished by the high costs of establishing a restaurant. However, the investment in the restaurant is not only one-sided, as both McDonald's and the franchisee invest in it. Investments by McDonald's refer to the provision of premises for new restaurants. This involves researching suitable real estate and buying (or renting) it, building the restaurant itself, or adapting non-residential premises. The resulting price of the restaurant depends on its size and type and can

range from 15 to 30 million CZK. An average restaurant costs about 25 million CZK (McDonald's, 2022f).

Anyone who wants to become a franchisee must pay a one-time entrance fee for 20 years and an interest-free deposit, which is returned at the end of the franchise agreement. But the biggest expense is the investment in the restaurant's equipment, which includes kitchen equipment, clients' area furnishings, and advertising elements (McDonald's, 2020). A certain part of the investment in acquiring a franchise must be financed from personal resources. Within the Czech Republic, McDonald's requires at least 40% of the investment to be covered by the franchisee's unencumbered capital. The rest can be financed with a bank loan (McDonald's, 2022f). McDonald's does not provide financing or loan guarantees but recommends financial institutions with which it has established cooperation in the field of franchising financing. It should also be noted that McDonald's does not allow a third party to participate in the investment (for example, a friend or a family member), so the franchisee must participate in the total payment entirely by himself (McDonald's, 2020).

After an initial one-time investment, franchisees must pay monthly fees during the franchise, which are calculated as a percentage of the restaurant's net sales. A service fee is paid for the provision of the McDonald's brand, supporting services, and improvement of the business model. In the Czech Republic, this fee amounts to 5% of the branch's net sales (McDonald's, 2022f).

Another standard fee is the marketing fee. McDonald's CR owns a subsidiary company Reklamní společnost McDonald's, which manages the marketing and advertising fund and enables the promotion of McDonald's throughout the country. All restaurants contribute 5% of their net sales per month to the fund. In addition, 1% of the restaurant's net sales should be used for local marketing activities (McDonald's, 2022f).

In addition to the widespread service and marketing fees, franchisees are also required to pay premises fees. This fee varies according to the location attractiveness and the market potential of the restaurant. These costs are charged to the franchisee as a monthly fee and amount to 10-18% of net sales, with a minimum monthly fee amount set here as well (McDonald's, 2022f).

Other obligations on the part of franchisees relate to non-financial matters. Buying a franchise the franchisee receives a ready-made business model, therefore in order to maintain a unified system, he must comply with the following McDonald's standards (McDonald's, 2020):

- QSC & V standards – Quality, Service, Cleanliness and Value;
- recipes and technical standards for food preparation;
- management, inventory, accounting and marketing methods;
- trade and service marks;
- restaurant design concept, advertising marking and equipment placement.

Repeated violations of these standards may lead to termination of cooperation by the franchisor. But while all franchisees are required to adhere to McDonald's standards, they are also provided with superior benefits and services in the form of training, operational consulting, marketing support, a proven supply chain, and the power of one of the most recognized brands in the world.

2.3.1 Franchisees' profile

Choosing the right franchisees is a key factor in the success of the McDonald's brand. Franchising is by no means an easy choice and becoming a McDonald's franchisee is certainly not for everyone. Like any business, this one requires a lot of effort, commitment and investment. That's why franchising is for those who have ambition, determination and talent, and want to put it all into their business. It is a great way to avoid the risks associated with starting your own business. The franchisee thus has a unique opportunity to participate in building an already established and trusted brand. Franchisee's main responsibility is the daily operation of the restaurant. In the process, the national head office gives him support in the form of established systems and processes, and together with him ensures the further growth of his business (McDonald's, 2022e).

Only natural persons can become franchisees, as McDonald's does not conclude franchise agreements with companies. By signing a contract, a natural person acquires the right to operate a restaurant under the McDonald's brand for a certain period of time. The conditions at McDonald's are very strict because running a restaurant requires a lot of skills. Although experience in the food industry is not

required, it is important that the applicants have determination, passion, and desire. These qualities are needed to drive their business forward continuously as they will be building their own business as a franchisee (McDonald's, 2022e). In addition, the franchise applicant should be equipped with sufficient equity, in the amount of at least 12 million CZK (McDonald's, 2022f).

When choosing franchisees, the company pays special attention to the following characteristics:

When selecting franchisees, McDonald's oversees and draws attention to the presence of the following qualities (McDonald's, 2022e):

- entrepreneurial spirit – an entrepreneurial spirit and a desire for success supported by high commitment are essential for running a prosperous business;
- leadership – leader qualities are needed to manage and motivate a large team of people;
- organizational skills – readiness to actively run the restaurant and devote all efforts to the day-to-day management of the restaurant;
- great communication skills – for effective communication with employees, customers, franchisee community, and company top management;
- customer orientation – there can always be some problems and misunderstandings with customers, which require a high level of empathy to solve them;
- financial literacy – at least basic knowledge of business financing is needed for financial management.

2.3.2 Restaurants' types and terms

McDonald's restaurants in the Czech Republic can be divided into several types according to their product offer, placement, and location. Firstly, these are restaurants that provide a complete range of sandwiches and drinks, including seasonal and promotional products. Some restaurants feature a McCafé, which offers sweets and a larger selection of coffee, or a Drive Thru, which is a sales window for motorists. There are also restaurants with only a basic offer of popular products without campaign products and without their own seating areas.

McDonald's restaurants can be free-standing buildings that look like small houses. This type of restaurant can usually be found near gas stations, within a retail park, or along a busy road. It is these branches that most often have a Drive Thru and may also contain a McCafé. Other restaurants are located inside buildings, usually shopping malls. But they can also be located within a retail park, in a residential building, or in a business center. It is possible to define a separate type of restaurants that are located in food courts in shopping centers and has shared seating areas with other restaurants.

Currently, the most expanding type of restaurants is those that uses the new generation ordering system. This system allows customers to create an order at a self-service kiosk without interacting with staff. In the kiosk, it is possible to find the complete offer of the given restaurant along with the prices, so the customer can order everything he wants. At the self-service checkouts, it is only possible to pay by credit card. After payment, everyone receives a payment confirmation and can pick up their order at the pickup point.

The choice of the restaurant location and its type depends solely on McDonald's. The franchisee does not have to have their own non-residential premises or a restaurant, nor does the company require him to take an active part in choosing the location of a new restaurant. So, McDonald's itself invests in real estate, which it then rents to the franchisee. The franchisee then procures restaurant equipment at their own expense according to the project that McDonald's processes for this branch. It should be mentioned that it is very important for the company that the franchisee is not connected in any way to the property in which their restaurant is located (McDonald's, 2020).

When choosing a location for McDonald's restaurants, they thoroughly evaluate their market potential. The company's development team maps market changes, population, traffic situation, land size and price. The primary evaluation of the location takes place regarding the objectives of the development strategy, the location suitability for the restaurant, and the trade conditions required by the seller or lessor. If these factors are at least partially satisfactory, a more detailed analysis follows. Key decision factors at this stage are customer generators, such as proximity to housing estates, shopping centers, public transport stations, schools, hospitals, important administrative or manufacturing facilities, and places for leisure

centers (cinemas, sports fields, parks). At the same time, the place should meet the following criteria, related to its area, spatial plan, technical conditions, transport accessibility, and visibility (McDonald's, 2020).

If there are not enough customer generators or some of the above criteria are not met, the offer is excluded from further evaluation. Places that have passed through the described selection procedure are then examined in much more detail, which helps to choose the ideal location for a McDonald's restaurant.

2.3.3 Selection procedure

Every candidate for a McDonald's franchisee position must go through a selection process that is precisely defined by the company (McDonald's, 2022e). The selection procedure starts with the submission of an application, which is publicly available on the company's website. Filling out the application serves to determine whether the candidate has the basic prerequisites for the position of the franchisee.

After reviewing and evaluating the application, the most suitable candidates are invited to an initial interview with the franchise manager. The interview evaluates the candidate's experience, goals, financial capabilities, and potential for owning and operating a restaurant. On the other hand, the applicant could find out more details about the cooperation with McDonald's in order to decide whether he wants to establish it.

If both parties are willing to continue negotiations, the applicant is arranged for a trial stay at the restaurant, which pursues two goals. Firstly, it provides the applicant with a unique opportunity to become familiar with the operation of a McDonald's restaurant and gives the opportunity to try out work at individual stations. Secondly, McDonald's has the opportunity to evaluate the applicant's behavior in real conditions.

If both parties are satisfied, a detailed examination of the potential franchisee and an evaluation of its financial situation follow. The candidate must provide certain documents, including an extract from the criminal record and the results of a medical examination, and prove their sources of funding (real estate register, tax return, deed of gift, etc.).

The final step of the selection process is an interview with representatives of McDonald's top management in the Czech Republic. If the interest of both parties continues, they determine a start day of training, which will be discussed in more detail in the next chapter. After completing the training, the applicant is offered the first restaurant. If the candidate agrees, a franchise agreement is signed and the process of handing over the restaurant begins.

2.3.4 Training procedure

Training is a priority at McDonald's because the company's success is based on dedicated, well-trained people and the uniformity of all operations in all restaurants. The franchise applicant training procedure includes an extensive training and development program that typically lasts 12 to 14 months. Most of the training takes place near the applicant's residence but sometimes requires relocation to other regions. This comprehensive program is designed to train applicants in all aspects of McDonald's restaurant management and to assist McDonald's in evaluating and developing their potential as a franchisee. During the training, the applicant should find out whether the franchising business is suitable for him. The training can be terminated at any time, as no legal relationship between the applicant and the company has yet been established (McDonald's, 2022e).

Annual training allows applicants to get to know the basic principles of business, business management and restaurant operation. The training takes place very intensively in the full-time format. During training, the applicant goes through the entire processes and all activities in the restaurant McDonald's – work for all restaurant positions, training of new employees, management of individual areas, and whole restaurant management. The applicant must also complete several internal management courses at the McDonald's training center, including seminars, conferences, and interviews with company personnel. The applicant does not have to pay for the training and during training time receives a basic salary that corresponds to the salary of regular McDonald's employees (McDonald's, 2022f). As a result, candidates gain experience in managing people and many other skills needed to run a thriving business.

McDonald's also provides its franchisees with free training for their employees. This is an extensive, continuous training program that franchisees can use for their

managers and workers free of charge. By providing such extensive training, McDonald's helps ensure the QSC & V standards mentioned earlier. These standards guarantee the high quality and uniformity of the services offered (McDonald's, 2022e).

2.3.5 Operational and marketing support

For those wishing to purchase a McDonald's franchise, many operational and marketing issues have already been resolved by the network itself. The franchise is a whole program that includes assistance in creating and operating the franchisee's restaurant, company advertising, the brand itself, marketing and production technology, as well as personnel training. As a result, the novice franchisee immediately receives a program of actions honed to perfection and tested with time.

The franchisee has access to all current work procedures, marketing and training materials that are available on the internal network. Furthermore, each franchisee has an internal advisor available. These are consultants whose primary duty is to help maximize the restaurant's QSC & V, which optimizes sales and profit. The consultant provides advice from the start of the potential franchisee's training and throughout the entire franchise period. The goal of the consultant is to continuously provide operational, management and business advice. But it is also an element in the control mechanism on the part of the franchisor. Consultants not only advise, but also check compliance with the principles specified in the contract (McDonald's, 2022e).

The franchisee does not have to carry out any marketing activity, as the experts from the marketing team will take care of everything. In addition, the McDonald's brand itself has been famous all over the world for a long time. To constantly strengthen the leading position, McDonald's and its franchisees invest significant funds in the marketing support of the brand. To effectively draw up and spend the marketing budget, McDonald's has marketing experts in each country working both locally and nationally. Within the Czech Republic, this is handled by a special company that manages the marketing and advertising fund. The use of this fund is jointly decided by representatives of franchisees and McDonald's ČR company (McDonald's, 2020).

2.3.6 Social responsibility

McDonald's and its franchisees have been having a certain social responsibility, since 2002, when McDonald's published its first social responsibility report (McDonald's, 2022b). McDonald's is gradually becoming greener over time, and there is a constantly increasing number of restaurants that are using electricity from renewable sources (McDonald's, 2022g). The waste generated in the restaurants is sorted and sent for recycling, energy use or disposal. In recent years, McDonald's has been gradually replacing classic plastic packaging with paper and limiting the use of plastic cutlery (McDonald's, 2022h). Part of their greening is the introduction of charging stations for electric cars, whose network they plan to expand (McDonald's, 2019). In 2020, there was opened the first McDonald's restaurant that is able to generate enough renewable energy on-site to cover 100% of its energy needs (McDonald's, 2022b). By 2025, the company would like to use only recycled packaging from renewable and certified sources (McDonald's, 2022g).

From a social point of view, McDonald's primarily supports children and families. The McDonald's Cup, which is a football tournament for primary school pupils, is traditionally held every year in several places in the Czech Republic. The history of this tournament began in 1997 (McDonald's, 2022i). McDonald's founded the Ronald McDonald House foundation, which focuses on supporting hospitalized children (McDonald's, 2022j). Every year McDonald's holds McHappy Day, when the company donates 50% of French fries' and charity product's sales to the foundation (McDonald's, 2022k). So, McDonald's tries to use the power of its brand to contribute to public life by supporting various sports and charitable activities.

2.4 McDonald's strengths and weaknesses

This chapter will focus on the strengths and weaknesses of McDonald's as a company and as a franchisor.

2.4.1 Strengths

Strong brand and image. McDonald's has built a huge brand value, good reputation and image, which is why it ranks among the world's most valuable brands today (Statista, 2022). As a result, the company has a significant global footprint and is easily identifiable to the public. When thinking about fast food, a large part of customers always thinks of McDonald's first (Nielsen Atmosphere, 2017). Also, the

company can acquire some new customers almost effortlessly. So, high brand value helps a company compete more easily in the fast-food market and get new customers. And for McDonald's franchisees, it means ensuring the success of their business.

Large market share. McDonald's is considered the largest player in terms of global reach and size, steadily increasing its market share and significantly outpacing its competitors. The same leadership trend is also observed within the Czech Republic. Currently, on a global scale, the company has over 39,000 restaurants in more than 100 countries of the world (McDonald's, 2021). In the Czech Republic, there are 109 restaurants across the country (Ministerstvo spravedlnosti ČR, 2022). The rapid expansion of the company is ensured by a well-built franchising system, which allows increasing the number of branches with minimal effort on the part of the company.

Specialized training. McDonald's takes the training of its managers and franchisees very seriously. This company has its own program for professional management training, which specializes specifically in the management of McDonald's restaurants (McDonald's, 2022f). Thanks to this, McDonald's has many highly qualified managers who can effectively support the company's development. It is also a great benefit for franchisees, as it allows them to acquire the necessary competencies.

Integration of technology and innovation. In recent years, McDonald's has been actively investing in innovation and technology companies in order to gain a competitive advantage and improve customer experience, which leads to an increase in sales. One example is the installation of self-service kiosks in restaurants (McDonald's, 2018). This move helped McDonald's improve the convenience for customers when visiting the restaurants.

Effective marketing strategy. McDonald's maintains an effective marketing strategy through a balanced combination of localization and standardization. When entering a new market, the company conducts thorough market analysis and ascertains local consumption behavior. So, in each market, the company considers local preferences while maintaining its standard offering. In the Czech Republic,

McDonald's founded a special company that deals with marketing for the Czech market (McDonald's, 2020).

Strong real estate portfolio. The majority of McDonald's revenue is generated from real estate. The company owns most of the premises, buildings and land where its restaurants are located (McDonald's, 2020). In the Czech Republic, all of its restaurants are operated by franchisees, who must pay McDonald's rent for the provided restaurant property. At the same time providing the property in a rental format allows the company to ensure a certain level of control over the restaurants.

2.4.2 Weaknesses

Junk food image. Over the past few years, McDonald's is trying to expand its menu with healthier options, but still, most of the food on offer is still nutritionally unbalanced. McDonald's menu contains a few dishes with vegetables and fruits, and their amount in the dishes is limited. McDonald's food is considered unhealthy and leading to obesity because it contains a lot of calories but little nutrition (McDonald's, 2021). As a result, some health-conscious customers limit or eliminate their visits to McDonald's restaurants.

Strong Competition: The fast-food industry is highly competitive and contains a large number of strong brands with which McDonald's has to compete. McDonald's biggest competitors on the Czech market are primarily KFC, Subway and BurgerKing. As a result of such strong competition, McDonald's is losing many customers who prefer other brands.

Lack of menu localization. As mentioned earlier, McDonald's uses a combination of standardization and localization in its marketing mix. In certain countries, the localization strategy manifests itself by introducing new menu items to the market that suit the preferences of local consumers (Cash and Konstantinides, 2020). But in the Czech market, the company localizes its products to a very small extent. Otherwise, it could attract new customers or increase the turnout of existing ones.

Easy menu imitation. Most of McDonald's menu items consist of fries, burgers, and chicken nuggets, which have simple recipes. Because of this simplicity, other companies in the fast-food market can easily imitate McDonald's products, thereby gaining part of their customers.

Employee dissatisfaction. McDonald's has a large number of highly qualified managers and skilled employees, but the turnover rate in the company is very high. This trend is especially true for junior workers who work part-time. The company is known for its low salaries and excessively high work pressure. Every year, many employees quit their jobs themselves due to unfavorable working conditions (Atmoskop, 2022; Indeed, 2022). It also has a negative effect on the image of the company as an employer and reason why McDonald's is often criticized among the masses.

Restaurants allocation. During its time on the Czech market, the number of McDonald's restaurants continued to increase, now reaching 109 restaurants (Ministerstvo spravedlnosti ČR, 2022). But so far in some relatively large cities McDonald's does not have a single restaurant, and in others this number is very small (McDonald's, 2022c). Therefore, the company does not use its full potential.

Expensive franchise. The McDonald's franchising system requires very high fees from franchisees, both initial and ongoing (McDonald's, 2020). Meanwhile, the amount of these fees keeps increasing over time. As a result, this leads to dissatisfaction among the company's regular franchisees and a large reduction in the pool of potential franchisees. Therefore, it is more difficult for the company to further expand on the market through a franchise.

Franchise model. McDonald's has a very well-developed franchising system, which brings many advantages. But one of the greatest strengths also has its dark side and can become a weakness under certain circumstances. In the Czech market, all McDonald's restaurants are in the hands of franchisees. And as a result, the company lost direct contact with its customers, which otherwise makes it possible to effectively monitor changes in customer behavior and quickly implement the necessary measures. The second weakness of the franchising model lies in the relatively low level of control over the franchisees, which consequently creates a high risk of poor management and customer dissatisfaction. As a result, it negatively affects the whole McDonald's brand, as each franchisee has a direct impact on it.

3 Improvement recommendations

McDonald's is a well-known worldwide fast-food restaurant chain and one of the largest franchise systems in the world. During its activity on the market of the Czech Republic, the company gained leading positions thanks to its strong brand, proven business model and thoroughly elaborated franchising system. However, even such a successful company may have weaknesses that need to be eliminated, and untapped potential that may provide opportunities for further development.

McDonald's still has the possibility of further expansion in the Czech market by opening restaurants in new cities and increasing its presence within the current ones, as this potential is not yet fully exploited. The implementation of this expansion strategy would mean an increase in the number of customers and therefore sales for the company. McDonald's could also focus on incorporating McCafé into a larger number of restaurants, as this concept has proven to be quite successful on the Czech market. At the same time, efforts can be made to improve and develop McCafé's product offering, so that it is more competitive in the coffee shop market and can compete more effectively with such leading brands as Starbucks and Costa Coffee. This direction of development could attract a new segment of customers who still had no or very limited interest in visiting McDonald's restaurants.

Responsibility for described expansion strategy lies with the McDonald's itself but it is closely linked to its cooperation with franchisees. As already mentioned, in the Czech market, McDonald's restaurants are operated exclusively by franchisees. Therefore, the opening of each new restaurant is conditioned by the search for the new franchisee who will operate it, or by the desire of existing franchisees to expand. That is where the problem occurs, because McDonald's franchising is very expensive, so it requires franchisees to make huge financial investments at the beginning and pay high fees throughout the cooperation. Therefore, the company could reduce franchisees' financial burden to increase existing franchisees' satisfaction, attract new franchisees and implement a more active expansion strategy.

McDonald's currently requires at least 40% of the initial investment to be covered by its own unencumbered capital. This share could be reduced by around 10% to make it easier for new franchisees to afford a franchise in the beginning. After

opening a restaurant, they would not have a problem with paying off a larger loan, as the McDonald's franchise is a proven system that is well-known in the Czech Republic and has proven to be profitable. The financial burden of franchisees could also be reduced in the area of monthly fees, namely fees for premises, which currently amount to 10-18% of sales, which is quite a large part. The decrease in profits that this reduction in fees will cause can be offset by the more significant increase in profits due to the expansion. It would also be possible to introduce special, more favorable conditions for franchisees when they incorporate McCafé into a restaurant to support McCafé expansion as well.

Another important area is the change in customer preferences, caused by the increasing awareness of healthy food and the trend of a healthy lifestyle. Currently, these changes represent rather a threat to McDonald's, but it is possible to use them as an opportunity for further development. The company is already working on expanding its menu to solve this problem and offers salads, wraps, and Veggie burger options (McDonald's, 2022m). But it needs to do more to really meet new customer needs. For example, KFC offers customers the opportunity to order rice with vegetables and chicken or poke (KFC, 2022). McDonald's second biggest competitor, Burger King, has a special Plant-Based menu where it offers a whole range of different burgers, wraps and even nuggets in a meat-free version (Burger King, 2022). McDonald's should also develop new products and bring more healthy alternatives to its menu. These changes would help the company to maintain its share of the Czech market and at the same time to improve the image of the brand, which is currently associated with unhealthy food.

Current changes in consumer preferences concern not only the products of the companies themselves but also their social responsibility and care for the environment. McDonald's is trying to be «greener» and more sustainable by introducing new initiatives in its product packaging, using renewable energy sources and waste sorting. But here there is still room for further improvement. McDonald's should introduce certain restaurant operation standards regarding the use of renewable energy sources into its franchise agreements to address this at the franchisee level. Because for now there are unique cases rather than worldwide practices. Also, McDonald's should continue to strive for greater use of Eco-friendly

packaging for its products. So, McDonald's management team should select suitable packaging, establish cooperation with suppliers and ensure logistics.

But in the social responsibility area, the changes could be introduced rather at the local level within the franchisees. McDonald's already organizes big events and runs the Ronald McDonald House foundation. However, franchisees could be more involved in local socially responsible activities within the district, city, or region where their restaurants are located. It is best to direct these activities to children, as they are one of the main target segments of McDonald's. For example, franchisors could initiate entertaining-educational activities and events in kindergartens and schools near their restaurants. Described social responsibility and sustainable development would have a positive effect on McDonald's brand image and could be also used as part of a marketing strategy.

A big problem McDonald's suffers lies with employees due to the high turnover of workers in lower positions. The company is very negatively evaluated as an employer due to its low salaries, poor working conditions, and high pressure. Employees' dissatisfaction, stress and fatigue could be a reason for a deterioration in the quality of services and products provided. That therefore leads to the decrease in customer satisfaction.

Therefore, McDonald's should build a new HR strategy focused on worker satisfaction, which would include raising wages to the level corresponding to the market, recruiting more employees to reduce workload, and improving the employee care system. This would improve customer service and the reputation of the company itself and as an employer. A new strategy would have to be created at the company's management level, gaining feedback from franchisees and individual restaurants' employees. But then it would have to be implemented in the business model that is shared with franchisees and included in the responsibility of individual franchisees.

Conclusion

Franchising is a favorable opportunity for companies that aim to implement an effective entry into a new market or expand in the current market. On the other hand, franchising provides opportunities for aspiring entrepreneurs who do not have a sufficiently original idea or want to avoid problems and risks arising from an independent business. Therefore, franchising has proven to be an effective and useful form of cooperation that benefits both parties. And actually, the business in the form of franchising enabled the creation of many companies that are now considered among the largest and most well-known companies around the world.

The aim of this thesis is to analyze the general characteristics of the enterprise, and based on the theoretical background, and comparison to other concepts, to propose new improvements. McDonald's was chosen as a franchising system for research purposes, because it has a strong position in the market and considerable success in the franchising field.

The work is focused exclusively on the Czech market, where McDonald's has been operating for 30 years. During this time the company has managed to maintain its position among the top companies providing fast-food, despite constantly growing competition.

The first step on the fulfilling the thesis aim was to define the concept of franchising, because its interpretation differs between authors. Meanwhile, according to the chosen franchising system, it is possible to highlight one of them. It says that franchising is a business relationship, when the franchisor provides a license to the franchisee and gives him the right to use the brand name and proven business system. Furthermore, within the theoretical part, the principles of franchising system, its types and the existing advantages and disadvantages were discussed in more detail. These aspects were considered from the point of view of the interaction between the franchisee and the franchisor, as well as separately from the point of view of each of them.

The next chapter of the theoretical part is focused on history and development of franchising research, starting from the time of feudalism, when it was first mentioned. In the beginning, the chapter provides an overview to the development

of franchising on a global scale, but then the attention is turned to the Czech Republic, where franchising came only at the end of the previous century.

According to the researched data, franchising in the Czech Republic has actually prospered only in recent years, but it keeps accelerating and has great potential for the future. At the end of this chapter, the role of franchising in the modern economy and key long-term worldwide trends were presented.

The analytical part is focused exclusively on a detailed analysis of McDonald's. Firstly, there were provided basic information about the company, its global scale role, history of establishment and expansion to more than 39,000 restaurants in over 100 countries. It could be said that the company is able to have its restaurants wherever customers need them. And franchising is one of the key factors that made it possible. The information on McDonald's operations on the Czech market was also presented. It was found, that from 2019 the company does not have any of its own restaurants, as they are all operated by franchisees.

An analysis of the franchising system of McDonald's was then carried out, taking into account the most important aspects of the franchise. Within this part, the conditions for operating a franchise, the profile of a suitable candidate and the procedure for obtaining a franchise were determined. In particular, training programs for franchisees and operational and marketing support provided by franchisors were examined, because McDonalds places especial emphasis on these aspects. A special chapter was devoted to the activities that the company implements in order to care for the environment and social responsibility, as McDonald's has many activities in this area. At the end of the analytical part, the strengths and weaknesses of McDonald's as a company and as a franchisor were summarized.

The final part of the thesis was devoted to the formulation of recommendations for the improvement of the McDonald's company and its franchising system based on the data obtained during the processing of the previous chapters. The main goals pursued by the given recommendations were to increase the number of customers, sales, satisfaction of stakeholders (customers, employees, franchisees, company top management, community), and improvement of the company's image and reputation. The presented recommendations can be briefly recapitulated in the following points:

- expansion on the Czech market by opening new restaurants, increasing their density, and incorporating McCafé into more restaurants;
- reducing the financial burden of franchisees to increase the satisfaction of existing franchisees, attract new franchisees, and support the expansion strategy;
- responding to changing customer preferences by developing new products and expanding the offer to include healthier alternatives;
- introducing high standards regarding the use of renewable energy sources in franchising contracts and increasing the use of ECO-friendly packaging;
- increasing the involvement of franchisees in local socially responsible activities;
- creation of a new HR strategy for lower-level employees and its implementation into the business model, which is communicated to franchisees.

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ANNOTATION

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KEY WORDS	franchising system, franchise, McDonald's, fast-food market, Czech Republic		