

FRANCHISING AND LOGISTICS: WAY TO GROW OR NOT

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Abstract

Logistics as an important part of the company's operations were going through different phases of development in order to fulfill the demands of the companies. Logistic operators needed to develop and to grow with their business and to expand internationally. When companies reached that phase, they needed to decide how to expand nationally or internationally.

Franchising is one of the most popular business models for the expansion and growth of businesses. As a business model franchising is present in almost every industrial sector worldwide.

The main aim of the paper is to examine if the franchising business model is an appropriate way for logistics companies to grow and to give a review of current franchise networks in the logistics sector. In the first part of the paper, we will present what franchising is and its influence on the world economy. In the second part of the paper, we will present a literature review about franchising potentials in logistics. In the third part of the paper several logistics companies will be analyzed and their attitude toward franchising as a growth business model. Finally, in the last part, conclusions and the proposals for further research will be presented.

Keywords: franchising, franchisor, economics output, logistics, growth

1. INTRODUCTION

Franchising is often seen as an efficient way to grow business from the franchisor side and as a safer way to start a new venture. This business model is present in almost all countries worldwide. Its current shape can be thanked famous Ray Kroc who started franchising revolution in 1960-ties in the USA when he became an exclusive master franchisee for the McDonalds brothers. He created so-called salesman suite which meant that everything at every location (franchisors or franchisees) had to be the same – from products and services offered to the interior and exterior design of location (Erceg, 2017). One of the most well-known definitions of franchising states that it occurs when a company (franchisor) licenses its brand and way of doing business to another company (franchisee) which agrees to work in accordance to the franchising contract (Boroian & Boroian, 1987). It is important to state that both parties involved in the franchising business model are legally dependent but

economically interdependent (Michael, 2000). Emmerson (1990) stated that franchising can be examined from an economic and legal perspective as a possible alternative for production and distribution undertaking integration into a single company.

Today there are several different types of franchising but most known are business format franchising and product distribution franchising. In both types of franchising, logistic services within a company or as a company's main purpose are of big significance. Business logistics in today's global and competitive economy has a significant role no matter if we are speaking about business-to-consumer or business-to-business activities.

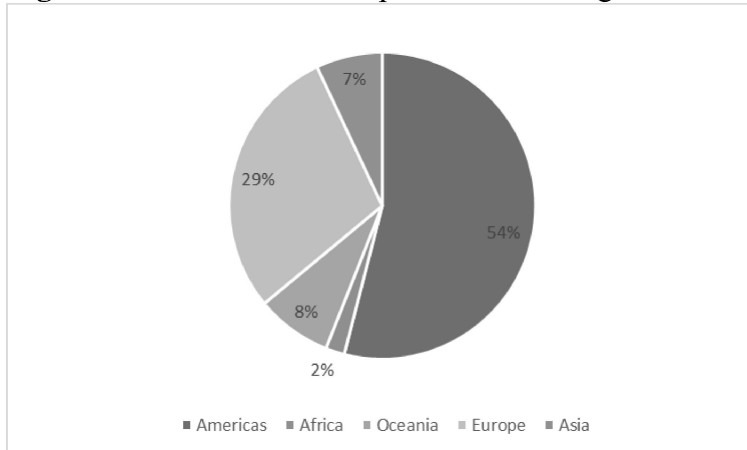
The main aim of the paper is examining the potential of the use of franchising for the growth of logistics companies. The main research question of this paper is to check the current situation within the logistics sector to see if the companies are using franchising as the growth model. In the first part of the paper impact of franchising to the world, economy will be examined while in the second part literature review about franchising in the logistics sector will be presented. Several examples which are using franchising in logistics will be presented in the third part of the paper. In the last part of the paper, the conclusion will be presented, and further research proposals will be given.

2. FRANCHISING AND THE IMPACT ON THE WORLD ECONOMY

Franchising is present in almost all countries in the world and usually companies which want to grow their business geographically but don't want to depend on their financial resources or don't have enough of their financial resources for the growth (Alon, Alpeza & Erceg, 2010). Franchising business model offers benefits to franchisees and franchisors thus the influence of franchising is increasing on the global economy (Zeidman, 2014).

World Franchise Council and FranData conducted research on a sample of 26 countries in which franchising exist to determine the influence on the national economy. Countries included in sample contribute 53% of total world GDP and economic influence of their franchise businesses makes 2.3% of total world GDP. In conclusion of FranData research on the impact of franchising on the global economy Schwarzer (2016) stated that franchising generates 1.6 trillion USD in more than 2.2 million companies employing more than 19 million people in 20 countries for which the data has been collected (Figure 1). The total economic output franchising creates is at 2.3 of total global GDP and on average 4% of national GDP. Further confirmation of impact franchising business model has on the world economy is in its expansion across national borders and thus increasingly becoming the fastest growth strategy for companies around the world (Castrogiovanni & Justis, 1998).

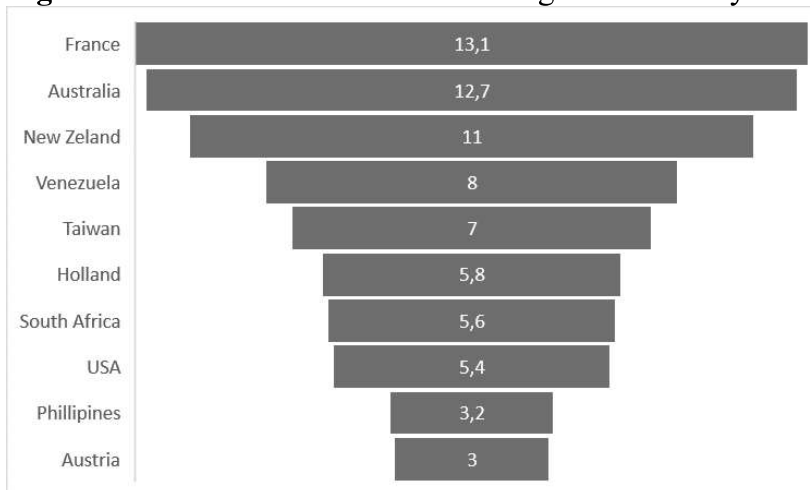
Figure 1. The economic output of franchising in the world



Source: adapted from Schwarzer, 2016

Americas has the highest economic output for the national economy. In average, franchisors and franchisees worldwide employ 9 people per location and franchise employ around 1.2% of totally employed in national economies. Franchising is not used the same in all parts of the world. Developed countries are using more franchising and influence of franchising on national economies of those countries is higher. According to the research there is a strong correlation (0.9) between the franchising's economic output and the number of franchised business in the country and weaker correlation (0.73) between the number of franchised businesses and the country's population as well as the country's population and the number of the jobs created by franchise systems (0.76). The contribution of franchising to the national GDP is significant in some countries (Figure 2).

Figure 2. The contribution of franchising to the country's GDP



Source: adapted from Schwarzer, 2016

Based on Figure 2, the highest share of national GDP franchising has in France followed by Australia and New Zealand, while the world franchising leader, USA, has only 5.4% share in national GDP. The franchising economic output in different countries is presented in Table 1.

Table 1. Franchising economic output in countries

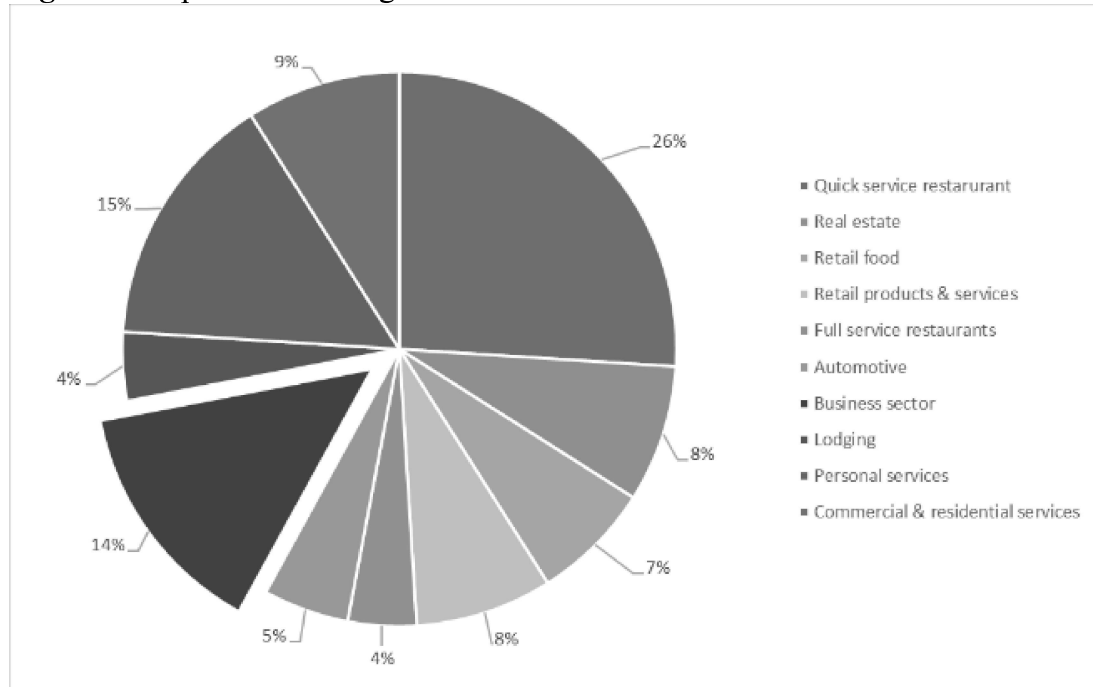
Country	Number of brands	Percentage of domestic brands	Number of units	Franchise Economic Output in billion USD
Argentina	550	90	18,000	8.80
Austria	445	51	8,720	8.50
Australia	1,160	86	79,000	126.50
Belgium	350	60	11,000	15.30
Brazil	2,013	N/A	N/A	43.00
China	2,100	N/A	120,000	30.00
Croatia	180	12	1,000	1.60
Finland	280	75	4,555	6.70
France	1,719	90	65,133	300.00
Germany	994	80	76,500	78.50
Holland	749	86	30,785	39.40
Indonesia	480	19	70,000	13.20
Italy	938	85	51,110	29.20
Malaysia	667	79	7,525	7.50
Mexico	1,400	81	75,000	1.00
New Zealand	485	88	22,400	15.40
Philippines	1,500	65	130,000	14.00
Portugal	500	N/A	11,760	5.300
Russia	595	N/A	22,800	28.00
Slovenia	108	43	1,580	N/A
South Africa	627	88	31,050	30.80
South Korea	3981	70	203,349	8.60
Spain	1,199	80	44,619	14.70
Sweden	700	80	26,000	21.00
Taiwan	2,433	88	128,305	70.00
Turkey	1,200	70	30,000	37.00
United Kingdom	935	82	39,000	13.70
USA	3,828	95	769,683	844.00
Venezuela	530	58	12,500	30.808

Source: author compilation adapted from European Franchise Federation, 2015; World Franchise Council Survey, 2016

The highest output is in the USA and followed by France, Australia, and Germany.

Franchising is present in almost every sector of industry although is mostly recognized in fast-food restaurants industry (Figure 3).

Figure 3. Top 10 franchising sectors



Source: adapted from IHS Economics, 2018.

Among the top 10 industrial sectors where the franchising has a significant presence in the business services sector which among other includes logistic services such as business transportation, warehousing, and storage (IHS Economics, 2018). This is showing that there is franchising potential for logistics services – transportation, warehousing, and storage. This potential is recognized worldwide and there are many different logistics services companies which have decided to grow their business using the franchising business model. Some of these worldwide examples will be presented later in the paper.

3. FRANCHISING AND LOGISTICS – LITERATURE REVIEW

Franchising has been and still is of great interest in researches worldwide. Different authors are examining different perspectives and viewpoints of the franchising business model. Some of those authors are trying to explain franchising and reasons for franchising through different theories such as agency theory (Eisenhardt, 1989), resource scarcity theory (Oxenfeldt & Kerry, 1968), institutional theory (Combs, Michael & Castrogiovanni, 2009), property rights theory (Mumdžiev & Windsperger, 2011), etc. Other authors have been looking from different disciplines so Dant, Grünhagen, and Windsperger (2011) found that in the period from 2000 to 2010 there were almost 80 research papers about franchising covering it from management, financial, entrepreneurship, and marketing viewpoint. Another research

conducted by Young and McIntyre (2011) resulted in a list of studies about franchising (Table 2). They found that the majority of studies were looking at the franchisor perspective but from different topics.

Table 2. Order of topics presented at International Society of Franchising conferences 1986-2010

1986-1999		2000-2010	
Topic of paper	Number of papers	Topic of paper	Number of papers
Franchise Management	69	Franchise Management	106
International Franchising	67	Performance & Growth	92
Relational Issues	57	International Franchising	53
Performance & Growth	50	Legal & Political	52
Legal & Political Issues	43	Relational Issues	47
Marketing	36	Marketing	33
Nature & Scope Franchising	35	Entrepreneurship	18
Economics	12	Modelling & Methodology	15
Entrepreneurship	12	Knowledge Transfer	13
Modelling & Methodology	9	E-Commerce/Internet	9

Source: adapted from Young & McIntyre, 2011: 15

Review of franchising research is showing that there is no research about franchising in logistics in the top 10 categories. It is important to state that out of 69 different research papers connected to marketing, 14 papers were about the place as part of the marketing mix (Young & McIntyre, 2011). Although one could state that if there is research about retail, then franchising logistics could be covered as part of the relationship between franchisor and the retail franchisee (Quinn & Alexander, 2002; Doherty, 2009). The same could be stated for research about international franchising where logistics plays an important part in delivering goods to a foreign country (Dant & Grünhagen, 2014).

Regarding the direct research about franchising in logistics only several papers were found in our research. Dapiran (1992: 11) researched global logistics in action on the example of Italian clothing producer Benetton and concluded that it presents an example of *an organization which has truly grasped the meaning of integrated logistics across national boundaries* and that *the real Benetton product is nothing less than integrated logistics*. This statement showed the importance of logistics for franchising systems in retail business and that franchisors, if want to expand nationally and/or internationally, must think about logistics. Carrie, Hayfron and Bititci (2000)

found a connection between franchising and logistics to reduce logistics costs for the manufacture franchising. Fenies, Gautier and Lagrange (2014) in their research about the decisional model in network franchise and supply chain network evaluated the model for optimization logistics and financial flows in franchise networks. They found a possibility to represent the relationship between each transaction and logistic chains in the franchise network. Pumpinyo and Nitivattananon (2014) researched reverse logistics of waste management and found that franchise bring more benefits and organization than non-franchise activities.

There are other studies (Hellstrom & Saghir, 2007; Chanut & Pache, 2011; Junjie & Min, 2013) which were researching the influence of franchising in logistics services but the only paper which examined franchising in logistics sector studied the dynamics of the logistics industry in China and possibility of TNT franchise system in China. Cen (2005: 35) found possibilities for franchising of logistics services in (i) *network of facilities such as distribution centers or warehouses as franchising members* (ii) *transport capacities such as small or medium size trucking companies as franchising members under the uniform brand of franchisor* and (iii) *service chains like 7-11, such as dispersed, unorganized individual stores as franchising members, etc.* These findings show the main directions for the use of franchising in the logistics industry.

4. FRANCHISING IN LOGISTICS – WORLDWIDE EXAMPLES

Franchising worldwide is present in more than 275 different industrial sectors (IHS Economics, 2018) and has a significant impact on economic output. In the same time franchising is getting more presence in the logistics sector. Worldwide there are more than several logistics companies which are using franchising as a growth model. These companies include companies involved in transportation, courier service, and warehousing. In every part of the logistics sector, there are franchise networks (Table 3).

Table 3. Franchise systems in logistics worldwide

Sector	Examples
Storage and moving sector	Zippy Shell U’Haul Smartbox
Courier services and micro logistics sector	UPS Store DHL TNT MailBox Etc PostNet
Forwarding and transport sector	BlueGrace logistics Inxpress

Source: author’s own research

The table presents only representatives of different franchising systems in the logistics sector and in the next part of the paper, we will present some of the leaders of franchising in the logistics sector. On the Entrepreneur Franchise 500 list there is only one logistics franchise on the 410th place – Inxpress while the list presents four more logistics companies which are using franchise for their growth – Craters & Freighters, Unishippers Global Logistics LLC, Safe Ship and BluGrace Logistics (Entrepreneur, 2019). Other franchise systems in the previous table are placed in other sectors – business services which are one of the most important sectors for franchising as it is seen in Figure 3.

4.1. UPS Store franchise

The UPS Store offers mail and parcel receiving, packaging and shipping services using different courier companies' carriers and provides a wide range of other products and services (printing, copying, office supplies, and notary service). Locations target the need of all size companies, small office/home office workers and all other customers who are looking to save time and costs in logistics. The UPS Store franchise offers a range of location-styles which are intended to fit the wishes of their franchisees. Initial franchise costs are different depending on the size of the location and location of the center (UPS Store, 2018). Franchise network currently has 4,600 franchise locations and they are the top brand in postal and business service category according to the Entrepreneur Magazine's 2018 Franchise 500 list (Entrepreneur, 2018). Franchisees get ongoing support and a comprehensive training program, advertising and marketing campaigns, a network of knowledgeable and dedicated franchisees; name recognition and reputation. On the other side, the franchisor is using franchisees resources for the growth of network and business. The company is using only franchising for the growth and has opened more than 200 new locations in the last 2 years, and they are currently present in the USA and Canada with a few locations worldwide

4.2. InXpress

InXpress started using the franchise business model in 1999 and with sustained growth, they became the world's largest franchiser of worldwide express parcel delivery and transportation services (Franchise Business Review, 2019). The company is established in 13 countries with ambitious plans for new growth across all major markets. They are currently operating with some 300 franchisees worldwide (around 100 in the USA and 200 worldwide). The company is working with DHL and shipping to more than 220 countries (InXpress, 2019). They have been using the franchising business model for growth which has resulted in a growing pace of 20% year-over-year.

It is important to state that although InXpress relates to shipping they are not shipping franchise. They are service reseller business based on establishing a connection and making relationships. The whole franchise system turn-over is almost 150 million USD per year and their aim is to help SME's growth by providing contact to the best possible shippers at reduced prices which are usually offered to the large

corporations. The transporters benefit with outsourcing some of the customer services to InXpress while franchisees earn money in finding customers who want to have better service and lower costs. InXpress leverages their global agreements with world-class carriers (such as the one with DHL) to get the favored rates for providing, different shipping possibilities (domestic and international express, mail and freight) to customers. The rates are conceded to the InXpress franchisee's customer. Franchisees are managing the customer relationship by providing the best possible customer services and perform administrative activities (i.e. invoicing, accounting, collecting money, etc.) with the customer.

4.3. BlueGrace logistics

BlueGrace logistics is one of the fastest growing third-party logistics providers in the booming industry. They are USA franchise system with more than 200 locations nationwide. The company offers B2B sales and consultation and their franchisee is involved in helping small, medium and enterprise businesses find far more efficient or advanced shipping solutions (BlueGrace, 2018). They are technology provider in logistics sector who offers web-based management system for transportation named BlueShip for consulting SMEs in streamlining and optimizing their transportation needs.

Similarly, as InXpress, BluGrace uses their strong technical capabilities and relationships with carriers for offering outsource of the transportation process to their customers. They offer benefits of transportation needs consolidation, lower costs, modern technology, and best possible customer service. Their business model resulted in a yearly growth of 7.4% in revenue yearly. Based on growth they achieved they decided to create a franchise system for further expansion.

Their franchises help SME's in better managing their shipping needs by using abovementioned BlueShip IT solutions, providing shipping solutions crafted for each SME especially, searching for faster carriers or carriers with better rates, or even becoming SME's outsourced logistics department. Main BlueGrace logistics customers are SMEs, distributors, and retailers which need to transport goods one location to another, and they do this regularly, but do not require a whole truckload. These companies usually spent huge amounts of money on shipping so BluGrace offers them crafted logistics solution which is significantly better than what SMEs can do on their own.

4.4. MailBox Etc

MailBox Etc together with UPS Store is one of the largest franchise networks of centers which are offering business logistics services to companies. Their main goal is to improve customer's productivity by outsourcing different processes like shipping which are not customer's core activities.

After UPS purchased American part of their network and rebranded them in UPS Store, MBE Worldwide from Italy acquired the remaining part. The company is now present mostly in 38 countries worldwide. In Europe they are present in Austria, France, Germany, Ireland, UK and from recently in Croatia. Worldwide they had

1,600 locations in 2016 and the total turnover was 427 million EUR. The company came back to the American market in 2017 when they acquired PostNet International Franchise Corporation. Today MailBoxes Etc has more than 2,500 location worldwide (Mailboxes Etc, 2019).

MBE's main clients are micro and small businesses, and stand-alone professionals, where MBE can take full care of logistics jobs. The main services that such clients use address registration and rental of mailboxes, mail, and mail receipts, collecting, sending and forwarding, etc. For medium and large companies MBE mainly helps to improve packet delivery processes, special packaging, and micro logistics.

4.5. To grow or not to grow – is franchising the answer

If we use search phrase “freight forwarding franchise” in Google one can get tens of different logistics companies (i.e. InterCargo, Cargocall, RPX, JML Corporation, AllCargo Worldwide Service, etc.) offering franchise business model. A similar result in a number of companies (i.e. InXpress, BluGrace, SupplyPoint, Nexterus, Diamond Logistics, etc.) can be seen if the phrase “logistics franchise” is used in Google. These results confirm that the franchising business model can be an answer for growth in the logistics sector.

In the previous part, we have presented several successful franchising networks in logistics sector whose growth and worldwide presence would not be possible without franchising (Table 4). Their growth without franchising would be limited by their own resources. Thus, their growth and use of franchising are confirming the resource scarcity theory. The resource scarcity theory state that the company starts with franchising due to the scarcity of expansion resources. It is needed to highlight that these resources are not only financial (capital scarcity) but can be organizational (for expansion), managerial (knowledge-based), etc. (Elango and Jawahar, 2002). Shane (1996) concluded that growth with franchising is allocating ownership rights to retail outlets managers (franchisees). In business format franchising (used for growth in logistics sector) franchisor maintains limited ownership and authority regarding business procedures, use of trade name, the location of franchised outlet and franchising contract while franchisees are managing and operating outlets (Child, 1987).

Table 4. Franchise systems in logistics worldwide

Characteristics	BlueGrace	Inxpress	MailBox ETC	UPS Store
Founded	2007	1999	1980	1980
Franchising since	2011	2006	1980	1980
Number of franchise locations	200	300	1500 + PostNet locations	4600
Own locations	10	N/A	N/A	N/A
Franchise fee	22,000 – 82,500 USD	50,000 USD	20,000 EUR	9,950 – 29,950 USD

Characteristics	BlueGrace	Inxpress	MailBox ETC	UPS Store
Total investment	39,500 – 181,250 USD	65,000 USD	40,000 EUR	166,659 – 398,323 USD
Royalty fee	15-19%	30%	6%	5%
Marketing fee	2%	N/A	2.5% + 1.5%	2.5% + 1.5%

Source: author's own research

Above stated characteristics for selected logistics franchise network show that starting as a franchisee in this business is not unexpensive. But the name which franchisee gets to carry brings business for him and for franchisor this represents further growth on the market where franchisor maybe would not go. This confirms that it is possible to use franchising as a growth option in the logistics business.

Another big logistics and express courier company TNT used franchising for its expansion into a new market – China but their story didn't finish successfully. Their intention was to establish a franchising model of trucking network for covering entire China since there was no national company in China trucking market in 2004 (Cen, 2005). The TNT franchise episode was not successful, and the company had a huge loss from its operations in China. On the other hand, one of the largest logistics and courier company DHL (a part of Deutsche Post Network) usually don't use franchising for its growth but due to the regulations in China they have started to use joint venture and in India, they are using franchising for network growth.

Big logistics companies in the USA are selling transport or delivery routes as a franchise (i.e. FedEx) which is another way of growing end expanding logistics business. Franchising is mostly used by companies which want to expand their business internationally and this is also the case with logistics companies. So big players like FedEx and UPS are using franchising for smaller markets such as Croatia where both companies have franchisee or authorized representative company (i.e. Rhea d.o.o. Zagreb).

5. CONCLUSION

Franchising is present worldwide as a way to expand the business and to start a new venture. It is present in almost all industrial sectors and almost everything can be franchised. The decision to grow for all companies is not easy due to the needed resources for growth. Franchising is an answer to this potential problem since franchisee is the one providing resources for growth while franchisor gives know-how and the brand. Franchising has a significant impact on national economies through economy output and the creation of jobs.

Need for reliable logistics services is growing worldwide thus companies need to cover this demand by expanding their presence in the market. Franchising is probably the best way for this purpose due to the benefits it provides for both parties and for the final customer. Franchising can help logistics companies in solving

problems with resources since franchisees are the ones providing those and they know the market on which they are opening a franchise.

The presented situation in logistics regarding franchising is confirming that the franchising can be used for the growth and expansion no matter if it is national or international. All examples have been using franchising for their growth and all of them have succeeded in the growth although there has been as always, some failures in this process.

This research has limitations since the author has used only secondary data gained from the different source out of which the conclusions were drawn. In order to confirm these findings, it is necessary to conduct full-scale research with statistical data.

Due to the great possibilities franchising has for the growth of the logistic companies' future research is proposed to determine:

- What are the major steps for the logistic company to start using franchising?
- How to increase further use of franchising in logistics since this is still not the main way of expanding the business geographically?

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