FRANCHISE AND LEASING - LEASING AS AN ALTERNATIVE MEANS OF FINANCING SMALL BUSINESSES

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Abstract: The development of technology is closely related to the development of science and technology. Under the technology we can understand the knowledge about the handling of production processes and processes as well as their application. By realizing the new technical possibilities and new conditions, entrepreneurs, if they analyze the market conditions, can first take advantage of its advantages and thus can maintain the competitive advantage of their companies or enterprises. Managing technology and linking them to market opportunities is the foundation of any successful entrepreneurship.
The availability of technology is an important component for both the society and the state as a whole, thereby achieving the economic growth and development of each country. The development of technology and its application depends on the social, economic and cultural structure of each society. Full development conditions for technology exist only in developed countries, while other undeveloped countries in the world are economically based on technology transfer.
The technology transfer forms can be divided into commercial and non-commercial transfers. Commercial technology transfer can take the form of direct investment (equity form) and non-equity form. In non-equity form - leasing, license and franchise, they represent forms of technology transfer and also a form for inclusion in the world market.
On the other hand, they differ according to the subject of the contract, the problems of transfer of technology, the manner of payment of the owner as well as the importance of the marketing support for the realization of the agreed transfer of technology.
This paper will deal with several types of long-term financing contracts that are often used by financial managers.
Keywords: financing, SME's, franchise, leasing

INTRODUCTION

The purpose of this paper is to give a basic knowledge of finance techniques characteristic for leasing, evaluating the lease by the user in order to make the right decision about the economic justification through the model to invest funds (to buy) or to choose the model for the transfer of technology through the conclusion of a leasing arrangement, the advantages arising from such a way of financing in the domain of small enterprises through the legislation on leasing in the Republic of Macedonia, and on Lets brief description of franchising as a tool in the economic and legal operations.

1. THE CONCEPT AND BASIC CHARACTERISTICS OF LEASING

Subsidiaries have fixed financial assets in the balance sheet, but an important factor is the non-determinants, land, buildings and equipment where, if they are not in their personal property, the first option is to purchase them through financial means or to take them as an alternative option for leasing . Leasing finance is a form of financing by giving the leased asset. The modern leasing arrangement in the world can virtually be leased fixed assets so that in 2006 more than 25% of the capital equipment was taken through a leasing arrangement.
Giving a leased asset in itself brings other benefits such as:

- Training of personnel who should use the asset;
- Servicing, maintenance and replacement of worn parts;
- Transfer of the leaseholder as know-how in the field of technology and technique with accompanying documentation for the given asset that is subject to the leasing contract.

The lease agreement is a concluded contract that allows the lessee to use assets owned by a lesser leasing company for a certain fee in a specific form of payment. The main interest of the leasing company is to allow the user of the equipment to create a cash flow in order to service leasing payments.

In concluding this type of leasing contract, two or three parties are involved, ie one party (leasing provider) undertakes to finance the purchase of a certain asset to the other party (the lessee), thus the lessee will select which asset it is necessary, the lessor will buy or order it to be made at the manufacturer (third party), and after becoming its owner, he will hand over the use and use of the leasing user for a certain amount of time and a certain fee for the same asset. After the expiration of the contractual term of the contract, the lessee can buy it, return it or continue to use it. Under a lease agreement, computers, aircraft, cars and industrial equipment are taken.[109]

In other words, if the legal entity does not have sufficient financial resources for the purchase of equipment, it refers to the leasing institution and takes the equipment under lease from it, and it concludes an agreement where the conditions under which the equipment is used is correctly concluded. The contract stipulates the provisions as a term of validity of several years, terms of use, manner of payment and the duration of the same agreement. After the expiration of the lease agreement the following options are available:

- to buy the object at a lower price and become its owner;
- to conclude a new contract for the use of the object at a lower price;
- to return the object of the leasing company;

In the leasing agreement, it is important to emphasize that the ownership of the leased asset to the lessee is the lesser, and this is an increased guarantee for him and for the entire leasing transaction.

The leasing institution is a legal entity that can appear as a manufacturer of equipment or as a legal entity that purchases the equipment from the manufacturer and gives it under lease to the user of the equipment.

In the financial leasing contracts the most important element is the price of leasing fee.

The price usually includes the following elements:

- depreciation of the asset;
- costs for servicing, maintenance, replacement of dilapidated parts;
- insurance costs;
- training costs for personnel;

The advantages of using leasing contracts are multiple:

- the use of the equipment must be financed by own funds, ie the user does not have to borrow in a bank.
- using leasing equipment, the user quickly comes up with modern technological equipment.
- the leaseholder will bear the risk of the expiration of the asset, namely if the lender has expired, the lender has an obligation to replace it.

The disadvantages of using the lease for the user are:

- the leasing fee is usually high, so that the leasing user should calculate that price in its costs in order to increase production and realization by paying the financing through leasing.

Given the positive and negative side of the leasing agreement, the decision-makers on the form of financing should have knowledge of different types of leasing arrangements, their characteristics, as well as the manner of analyzing and evaluating the economic justification of the engaged funds.

1.1 Types of leasing

-Leasing may occur in the following basic forms:

- Sale and leaseback arrangements
- Operating leases
- Financial or Capital Leases

Sale and re-lease- The owner of the subject of the lease contract sells the object of the lease issuer for an agreed price, and the same issuer then leases it through a financial or operating lease to the client. In this way companies can acquire additional financial goods that are intended for:

• Increase of capital in order to expand the business operations,
• New investments,
• Refinancing,

This arrangement identifies other issues, including the duration of the arrangement and the obligation to maintain the asset.

Operational leasing - sometimes referred to as service leasing, includes financing and maintenance. With such a fixed-term lease, the asset user solves the issue of financing and holding the asset. Companies like IBM are pioneers in operating lease agreements in the field of computer equipment, photocopiers, cars and trucks. Typically, the equipment user requires the provider of the asset to perform maintenance and servicing, and the maintenance costs are incorporated in the lease fee.[110]

Another important feature in the operational leasing arrangement is the fact that it is not depreciated entirely for the duration of the leasing contract, in other words, payments in respect of the operating lease agreement are not

[109] Essentials of Managerial Finance - fourteenth edition - Scott Besley & Eugene F. Brigham
[110] Franchise and Leasing - a compilation of FBE texts

sufficient to cover the total cost of the equipment. The lease arrangement period is usually shorter than the economic life of the asset, and therefore the owner of the asset seeks to cover the value of the asset by additional leasing or sale.

One of the main features of this type of leasing arrangement is the existence of a termination clause that entitles the asset user to terminate the leasing contract before the expiration of the agreed time. This means that if the equipment that is given for use is technologically outdated, the user of the asset can return it before the agreed time.
Financial or capital leasing - differs from operating lease according to the following equity:

- The user assumes an obligation to maintain the asset that has been taken for maintenance;
- There is no possibility of termination of the arrangement;
- In the leasing period, the asset should be fully depreciated,

This type of financing is intended for physical but mostly for legal entities and applies only to immovable property. This type of leasing lets you support the construction of multi-purpose buildings, warehouses, production halls, business facilities and the like. The required share is determined individually depending on the investment.

Example - In this type of leasing arrangement, the user chooses the asset he needs to use and agrees on the cost of the assets and the terms of delivery with the manufacturer or seller of the asset. Subsequently, the asset user agrees with the leasing company for the conditions under which he could use the appropriate asset / equipment. Once the terms of the leasing contract are determined, it regulates the leasing company to buy the asset from the manufacturer or distributor in accordance with the agreed terms. Once the funds are acquired and taken over, the leasing arrangement starts.

The leasing company decides to finance the asset to which the user is a different company. At the same time, the cost that it pays to the seller / distributor of the equipment as well as a certain return on the engaged capital is charged by the asset user, until the moment when the depreciated asset is transferred to the permanent ownership of the user.

Financial risk is similar to the sales arrangement with a returnable lease, with the exception that the leased asset is new, and the one who gives it under lease purchases from the manufacturer / distributor at the customer's choice and from the agreed terms.

1.2 Evaluation of leasing

For the provision of a particular asset through a leasing arrangement, the asset must be valued by the lessee, leasing provider, and by third parties participating in the lease arrangement. The user should decide on his own whether it is cheaper to provide the necessary asset with his purchase or leasing, and whether through the chosen solution he will receive a reasonable rate of return.
Our task in this context will be explained from the aspect of managerial financing rather than from investing in investments, and we will make an analysis that will lead us to the manner of the modalities of the leasing user.

The decision to finance the asset is based on a regular capital budgeting procedure. But in the leasing analysis, it is necessary to decide whether the funds should be leased or purchased, and the decision itself will depend on the size of the the costs associated with each of these solutions.

1.3 Factors that influence leasing valuation

The basic methods in the process of valuation of the lease by the beneficiary represent certain factors when making the decision for using the lease as a source of financing and referring to the next-
- Estimated residual value of assets and,
- Increased creditworthiness

Estimated residual value of the asset - important for this factor is to keep in mind the lessee owns the asset for the duration of the arrangement. The residual value of the asset after the expiration of the leasing contract is called - residual value. Therefore, if it is estimated that the residual value of the asset will be higher, the option to purchase the asset will be advantageous in terms of leasing.
Increased creditworthiness - the use of leasing has an advantage for those companies that have limited creditworthiness. The use of leasing affects the increase in the creditworthiness of the beneficiary because:

The company can provide more financial resources for a longer period than through loan indebtedness,

- Leasing does not appear in the balance sheet of the enterprise, and therefore, the financing through leasing arrangement gives the same more favorable financial presentation in the case of lending analyzes and thus allowing it to use the financial levy to a greater extent than in the cases when it does not I would use leasing as a financial source.

1.4 Application of leasing to small enterprises

The use of leasing as a form of financing for small enterprises takes a larger share, so in addition to bank loans, leasing is the second most important source of financing for small enterprises.

Leasing encourages the development of small business entities, especially in emerging economies, where they are the drivers of social economic well-being for a country. Namely, taking into consideration the use of leasing arrangements affects the modernization of the economy, increased production and sales, know how technology, increased investments and at the same time reduce the unemployment rate.

- The financial function is an opportunity that is used very often in small enterprises, which are usually not able to self-finance or credited by third parties, and those who have cash to direct them to other goals. Thus, the application of all small enterprises among the existing and those newly formed, as well as those with cash flow, is a feature that makes leasing a very affordable source of financing for small enterprises.

- Leasing is only for new, modern and technologically advanced equipment that can start at newly established businesses, but also to modernize and increase the profitability of already existing enterprises.

The leasing contract itself represents a simple, transparent and relative speed in reaching agreement when concluding the contract.

- The leaseholder does not reduce his creditworthiness, because he does not use his own sources of financing, nor does he perform loan borrowings, and the structure of the balance sheet does not change.

- In the short term, the exact fee / installment lease, in terms of variable prices, provides an opportunity for reliable calculation and decision-making.

- Flexibility of the leasing contract, the possibility to determine contractually more than the provisions in the contract between two parties and as such makes the leasing contract easily applicable.

- More effective use of managerial time. Namely, most small business owners never have enough time to carry out all their obligations.

- Leasing the fee that is paid in the leasing agreement is compensated from the income realized using the leasing object.

The main factors affecting small business owners for taking a decision to take certain leasing assets are that large leases are avoided by leasing, it facilitates cash flow, it is easier to secure, it is very flexible and easily adapts the needs of the user.

Leasing, as it has positive effects, there are also some shortcomings that need to be assessed with great care when deciding on the choice of method of financing, and in particular should take into account the following:

- Inequity of the parties when concluding a leasing contract in determining the conditions, such as the economic power of the leasing provider and vice versa. The lease holder can dictate the terms of the contract, for example when leasing equipment to which it is difficult to arrive, especially if it is rare or very difficult to come to it.

- The non-flexibility of the already concluded leasing agreement with regard to the validity period, the amount of the fee, the period of payment, the possibility of termination of the contract under changed conditions,

- More expensive way of financing business entities,

1.5 Enclosure: Franchise

Franchising as a form of technology transfer presents itself as a sort of distribution system of products and services, in itself it carries the elements of the license, the elements of the model / system of production and the classification of a certain category of products and services. The biggest affirmation franchise occurs in the area of distribution of soft drinks, fast food restaurants, hotels and vehicle rentals.[111]

- franchisor - represents a business relationship between the service provider and the franchisee recipient, entitling the recipient to perform an activity on behalf of the franchisor, using all the know how, procedures and procedures and modalities of the business under the name of the brand.

- The franchisee (franchisee) - the franchisee (franchisee) of the franchisee, franchisee franchisee, his commercial good for sale, and also the franchisor also applies to his technology, marketing, brand and corporate brand / a seal, a distinctive identity (recognizability), and everything else in order to help the franchisee to identify himself in a way to sell or sell the merchant's good. The franchisee usually provides (a franchisee's offer) a working room and a workforce.

The positive aspects - the franchise is if the company willing to buy the license gets an internationally known name and thanks to marketing such a brand is ranked very high among the potential consumers. A firm that sells a franchise also provides training and assistance during the planning / design of the building.

Negative aspects - the franchise is a lack of control and large taxes. Often, the franchisor's owner can not use his own business style, conditional to the franchise agreement must be strictly adhered to the procedures given

[111] http://www.mikroleasing.com/index.php?p=32&l=1 - access 21.12.2010

by the franchisor. Taxes are often presented in the context of the overall turnover, and not from profits, if the owner who has a large turnover and is not in a position to control costs may end up in minus.

Conclusion:

In terms of alternative financing by means of leasing, the fact that if the legal entity does not have sufficient financial resources for procurement of a particular asset (a problem for small enterprises), it should turn to the leasing institution, and it takes the asset under lease, In the contract for leasing, the most important thing is to look at the modalities and conditions for using the asset. It is important to note that the ownership of the asset that is being used is the leasing provider. The lessee during the agreed period of the leasing contract has the right to use it, after the expiration of the contract, the user has several options: - to buy the object at a lower / residual price or to return it to the owner or leasing company .

Leasing as a financial option for leasing may occur in the following basic forms: sale with return lease, operating lease, investment lease and financial / capital leasing.

When providing a fixed asset through a leasing arrangement, the asset should be valued by the beneficiary in order to make a correct and integral decision whether to buy it or through leasing, such an estimate should be made through the net present value criterion, and whether through the approved solution will receive a reasonable rate for a lease fee.

If leasing is encouraged as an alternative means of financing small enterprises, especially in emerging economies, it will be a huge achievement for modernizing the economy, increased production, equipment sales and unemployment, and on the other hand, capital investments increase.

The feasibility of leasing in small enterprises, both for those who have cash and for those who do not have free cash, is a feature that makes it an available source for alternative financing in small enterprises, in a way that represents a flexible and adaptable tool for the needs of the user thereby avoiding large capital outflows from the country.

CONCLUSIONS

In terms of alternative financing by leasnig is that if the legal entity has sufficient funds for the purchase of certain assets (the problem of small enterprises in the Republic of Macedonia) should apply to the leasing institution, and it takes the asset under lease, The lease agreement is essential to view accurately all modalities and conditions for use of the asset. It is important to underline that the ownership of the asset which is given to use is the lessor. The lessee within the agreed period of the lease agreement is only entitled to use till the expiry of the contract, so the user has available several options: - to buy the assets at a lower / residual price or to return to the proprietor or the leasing company.

Leasing as a financing option for lease can occur in three basic types: sales return leasing, opeational leasing and financial or capital leasing.

Regarding the provision of fixed asset through leasing arrangement, the asset should be valued by the user in order to make correct and appropriate decision whether to buy or lease, such assessment should be made through the criteria of net present value, and whether through approved solution will get a reasonable rate of compensation for leasing.

The leasing means to encourage alternative of financing small enterprises, especially in developing economies, it would represent a huge effect on the modernization of the economy, increased production, sales of equipment and reducing unemployment, and on the other hand, increasing of capital investment.

The applicability of leasing in small enterprises, as in thosse who have the cash, and those who do not have free cash flow, represents a feature that makes available alternative source of financing for small enterprises, in a way that rappresents a flexible and adaptable tool for the user and thus avoid large capital outflows from the country.

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