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## FRANCHISING AS A PROMISING FORM OF INTERNATIONAL BUSINESS

*The article analyzes main tendencies of modern franchise development in the world. The prospects of franchising formation and basic problems of franchising development in Ukraine are distinguished.*

**Keywords:** Franchise, franchisee, franchiser, franchise, integrated form of business.

**Relevance of the problem.** The current state of the economy, its internationalization determines the necessity of organizational and economic bases of forming integrated forms of business development. World practice shows that franchising is one of the most effective ways of business companies development that have succeeded and now want to develop their success in the future. On the other hand, franchising is the best opportunity to organize your own business to secure small one. Today, franchising gained enormous popularity in the developed countries. This causes the relevance coverage of major aspects of franchising usage and prospects of this form of business development in Ukraine.

**Literature research.** The study of franchising as an effective form of business is studied by scholars J. Delta, F. Kotler, J. Lamben, M. Mendelson, N. Kovalchuk, I. Boychuk, A. Vynogradskaya, V. Denysyuk, O. Kuzmin, M. Makashev and others.

**The main purpose.** Franchising popularity is explained by its significant advantages. Business in the form of franchising around the world is a more reliable form of business compared to free small businesses due to the fact that this business is well tested and is a part of the franchising. Despite the significant franchising opportunities in the process of formation, there are many open questions of theoretical and practical prospects of franchising in the whole world and particularly in Ukraine.

The aim of the research is to study the features of franchising in the world and determine the prospects of using this form of business in Ukraine.

**Research results presentment.** Western experience shows that in market conditions the basic forms of large and small forms of business integration are: in production is subcontracting; in manufacturing and marketing is franchising; in

innovation is venture finance. All these forms of integration provide a mutually beneficial move of financial, technological, raw material, information resources in the interests of the national economy. Franchising collaboration system is a specific variation of the vertical integration of small and medium enterprises through the original system of contract-licenses (franchises). They allow franchisee (small enterprise) to conduct certain type of business, established by the other party (franchiser (mostly main enterprise)) [3, p. 22–25].

The term «franchising» comes from the French word «franchise» and means privilege, benefit. According to International Franchising Association, franchising is long-lasting relationships, which provides lawfully secure franchising entitled to engage certain business activities, as well as assistance in organizing these activities, training, implementation and management of reward franchising [4].

The main feature and biggest advantage franchising is that it combines knowledge, experience, stable financial franchiser position as an organizer of the business, the owner of a general license, know-how, patents, chief consultant and supplier of raw materials, products, equipment and technologies needed for business and franchisee – businessman, entrepreneur, manager, whose activities are independent, but the company did not operate as a separate business entity, but as part of a single complex, integrated by franchiser as the owner of the intangible assets, owned by franchisee.

There is no single approach as for the appearing of franchising as a technology business. Some specialists connect its appearance with the active use of the system of «united houses» by English brewers in the early XIX century. Others argue that the franchising originated in medieval

England, which had actively traded the rights to hold fairs, construction and operation of roads. Most historians of enterprise believe that franchising originated in the United States. At the end of XIX century, when a number of major U.S. companies sold small enterprise rights to market their products across the country. «Singer» is considered to be the first who has assimilated franchising. The reason to use franchising was the lack of funds to hire salespeople. In order not to reduce the volume of production, the company decided to sell the rights to market sewing machines to independent sellers in a particular area.

Another company «General Motors» in 1898, creating an effective franchising system (today – over 11,000 of franchises). Having no money to open their own network of stores, it sells steam engines through dealers. That was the beginning of a modern system of car sales. A similar scheme, i.e. giving certain rights to use the brand names, products and / or technologies was successfully used further by companies such as Coca-Cola (1886), A & W Root Beer (1924).

Since the early 1930s franchising became the main development tendency of fast food restaurants, in particular including such companies as McDonald's, Kentucky Fried Chicken, Dairy Queen and Hardee's, companies Pepsi and 7 -UP. After the «Great Depression» the U.S. oil companies began using jobbing, a kind of franchising analogue. In the 60–70 years of the XX century in the United States a real franchising boom began in small and medium enterprises. The country has opened up a large number of travel agencies, hotels, dry cleaners, laundries, service stations, beauty salons, restaurants, cafes, clubs, etc. [5, c. 36–40].

At the beginning of the XX century, a new form of franchising was introduced between wholesalers and retailers. In the UK, the basis for the system organization of grocery stores «Wee Gee grocery stores» was the principle of intangible assets investment by the small business owners.

In the U.S., according to Naisbitt Group research in 2009, industry experts predicted that according to franchising system sales will reach 438 billion US dollars in 2010, 705 billion US dollars in 2011. By 2012 sales had reached 1 trillion US dollars and 1,3 trillion US dollars by 2013 [9].

Experts assume that the durable growth of franchising in the U.S. is caused by the growth of

personal income, price stability, high level of consumers' optimism and higher competition for market share. Undoubtedly, an important factor of franchising development was also that foreign companies were attracted by the United States. Canadian, European and Japanese franchisees/franchisers with their system that already succeeded in these countries appeared especially actively in the US market. In 2009, the United States has employed 60 foreign franchisers / franchisees French company «Pronuptia», specializing on wedding dresses, the British company «Wimpys» and «Bake N Take», German one «Wienerwald», which deals with food, were the first and most successful in the industry.

U.S. franchisers/ franchisees have achieved considerable success in foreign countries: «Burger King», «Hardees», «Holiday Inn», «Howard Johnsons», «Baskin-Robbins», «Meineke Discount Mufflers», «Great American Cookie» are American franchises, bought by foreign companies [7].

Franchising in the United States is used in many different types of enterprises. In particular, it growth intensively in such industries and the services as:

- automobile industry and car services;
- assistance in the organization and business performing (bookkeeping, record keeping, advertising, etc.);
- construction services related to the repair and maintenance of buildings;
- services related to education;
- recreation and entertainment;
- fast-food restaurants, snack bars, etc.;
- food tents; health and beauty services;
- household services;
- retail trade;
- many other activities [7].

In 2013 there were 757,453 franchise businesses in the USA (forecast for 2014 is 770,368 franchise companies), where 8,318 million workers were employed (forecast 2014 is 8,51 million employees) , representing 7,4 % of work places in the private sector.

In 2013 the capacity of U.S. franchise profit amounted to 801 billion dollars (forecast 2014 is 839 billion U.S. dollars of income). The franchise system in the United States are:

- 56,3% of total number of fast food restaurants;

- 14,2% of food sale enterprises;
- 13,1% of full service restaurants;
- 18,2% of hotel business;
- 4,9% of car services companies;
- 3,3% of companies offering business services;
- 1,5% of real estate services;
- 0,9% – personal services [8].

In Canada, the franchise market in many ways reflects the evolution of the franchising in the United States. In 2013 the capacity of retail sale through franchises in Canada exceeded 48 billion dollars ( about 45% of total retail sales). Over 50% of these sales were made through franchising business format and others through «non-traditional» forms of franchising.

In 2012 about one thousand franchisees who worked in Canada and had about 45 thousand of outlets, realized sales volume of 61 billion US dollars. The annual growth of the franchise system in Canada was 20 % in 1985 and 25% in 2011 and further growth was expected in the next years [9].

In Canada nearly half of business format franchises are owned by foreign companies, most of which are from the USA. Perhaps due to geographic proximity and cultural similarity Canada is a common market for American franchises expansion.

The US Commerce Department said that 29% of American international franchises were located in Canada, a total number of franchisors is 237 that have 9031 outlets. This corresponds to about 40% of all foreign franchise outlets United States, located in Canada. Franchisers from other countries, in particular, from France, Australia, the UK, also rapidly penetrate the market in Canada.

In France in 2010 were registered a total of 34 franchised networks, but in 2011 this figure had risen to 108, with 7,500 outlets. In 2012 there were 675 franchisees, owned about 30 thousand outlets. Franchising has provided employment of about 150 thousand people. The volume of sales through franchise system exceeded 16 billion US dollars in 2013 or about 5% of general retail sales in France. French cover about 40% of the European franchise market, which capacity is estimated at 32–35 billion US dollars. According to French economist I. Bernard, now more than 6% of retail trade is done through franchises in the EU.

France is characterized by the dominance of national franchise operators. Only 5% of outlets are foreign franchisers.

Franchises that sell clothing and footwear (25% market share) are characterized by the largest annual increase value throughout the retail franchise. Food, furniture and appliances also occupy a significant share of franchise retail sales, 15 and 20 %, respectively. The remaining 40% of the market belongs to services (25,5%), construction (7,5%) and hotel and restaurant business (7%) [10].

In the UK franchise development accelerated after the founding in 2012 of the British Franchise Association (BFA). According to statistics more than 540 franchises in 52 thousand outlets currently operate in the UK. Most British franchisers started their operations from 2013. The largest sectors of the UK franchise market due to sales volume were:

- 1) sale of furniture, household goods and commodities, equipment;
- 2) goods and services to have rest;
- 3) fast-food restaurants (are on the first place due to 1898 units of outlets).

Currently in Europe operate 4,500 franchising systems, each of with an average of 37 partners , the total commodity circulation is 150 billion US dollars. However, the degree of franchising business development in Europe is much lower than in the USA , where the volume of this kind of operations exceeded 800 billion US dollars.

In Japan, there are three main categories of Japanese franchises: 1) the sale of goods, 2) food services, 3) other services. Japan has been very attractive for US. Franchisers in their market search and has become the second largest foreign market for U.S. franchisers after Canada. In 2013 69 franchisers who had 7366 sales outlets were employed in Japan, 72% of which belong to the second food services category.

In Italy, in 2012 there were 300 franchisees who worked with 17500 franchises. During this period, the gross volume of sales exceeded 4,1 billion US dollars. Italian franchise market is characterized by proportional spread of both foreign and domestic franchisers that are largely oriented onto the product distribution sphere.

In the Netherlands the franchising has also revealed a dynamic force in the economy in 2013.

In Holland there were 289 franchisees who owned 11,252 outlets in the country, and the total volume of franchising sales were within 5,8 billion US dollars. The leading form of franchising in the Netherlands is a franchise for distribution of products (sales); on the second place is a franchise service industry. Although there is a tendency to increase foreign franchises in the country, the market is still dominated by national operators.

According to the International Franchising Association within about 1500 franchising networks, there are more than 350 thousand franchisees (franchise outlets). Annual sales volume within the franchising system exceed 1,5 trillion US dollars with more than 50% of franchise retailers. Franchising in retail sector provides about 15% the USA GDP. Approximately 60% of the country's GDP is produced by small and medium enterprises, over 50% of which is in the system franchising.

According to FRANDATA Corporation indicators, economic sectors, franchising of which is the most widespread are: fast food establishments is about 32% of world franchising number, retail trade (including food ) is 24%, services (including sports and tourism ) is about 12% and transportation services is 13%, building is 11%. However, about 50% of the world franchising networks work in the field of trade, where fast food restaurants, shops and industrial food products take the main place. On average, about 80% of fast food establishments of the largest world operators are managed by franchising.

In other countries franchising is less developed , thus in Western Europe franchising retail share is 30%. In general in all EU countries there are about 4,000 franchising networks, which employ about 1,5 million people. The annual turnover is more than 120 billion US dollars.

Thus, a great experience of countries that effectively use franchising shows that this system is quite prospective.

In Ukraine one of the franchising use feature is the prevalence of domestic (Ukrainian and Russian) franchise networks. Over 50% of all franchise agreements are related to trade in petroleum due to jobbing system («TNK- Ukraine», «Lukoil-Ukraine» and «Alliance-Ukraine»), and ordinary dining establishments and fast food restaurants («Pizza Chelentano», «Kartopliana

Hata», «MakSmak», «Dva Gusia», «Kozyrna Karta», «Pan Pizza», «Rostik's», «Baskin-Robbins»). In addition, representatives of retail trade: clothing – «Sensus», «Gregory Arber», «VD One», «Argo Trading and Sela»; Shoes – «Monarch» and «Ekonika» work according to franchising. Such dry cleaners as «American Clearens International» and «Un Momento», photo services network «Kodak», network service stations «Bosch Auto Service», fitness club «Planet fitness», «1C: Franchising», travel agency network «Galopom po Evropam» and many others also use franchising mechanism [2, p. 52–54].

According to experts review, many domestic and Russian companies operating on the Ukrainian market of food and retail consider franchising as one of the main business development strategies. These companies include, for example, fast-food network «Shvydko», «restaurant «Taras», supermarket network «Paterson».

Some domestic companies are planning to join international franchisees («Pizza Chelentano», «Kartopliana Hata», «Sensus», «VD One») by searching franchise partners in other countries.

In November 2013 in Ukraine there were more than 500 franchisees (505), covering all major activities. Compared with the year 2012, their number of them increased by 5% and is less than in previous years. Number of franchisees exceeded 22,5 thousand points of growth per year and is less than 10%.

In all sectors where franchising is used they grow at about the same level. So, retail is mainly growing due to the clothing trade, usually of foreign origin, the service sector of the public catering is mainly done by national brands, business finance services( Pawns) are exclusively from national brands. National brands occupy 56% of the total number of franchisees.

In 2014 experts predict the following prospects:

- the number of franchisees will increase by 8-10%, the number of network franchisees will be 10–12%;
- the growth of major industries should be seen in: 1) goods of daily demand, including supermarkets; 2) jewelry, gifts, hobbies, etc.; 3) household services and other outsourcing such as cleaning, dry cleaning, mending of clothes and shoes, etc.; 4) health and beauty; 5) institutions related to the global entertainment and events [1].

Although today there is rapid development of franchising in Ukraine, but it has some drawbacks:

1. Ukrainian entrepreneurs ignorance with the basic principles of doing business in franchising.
2. Gaps in the legal framework of Ukraine.
3. The lack of detailed information on the franchising as an innovative way of doing business.
4. The absence of testing business practice [4].

#### **Conclusions and prospects for research.**

Summarizing the franchising problem it should be noted that franchising in Ukraine is a prospective area of economic activity and in future it is going to be the growth of this segment. However, when the majority of business projects become unprofitable, franchising is a profitable business for both the franchiser and the franchisee.

Despite of all the franchising development problems, it has great potential for operating in Ukraine. Therefore, further research in the future franchising development in Ukraine is the creation of recommendations for solving these problems.

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#### **ФРАНЧАЙЗИНГ ЯК ПЕРСПЕКТИВНА ФОРМА РОЗВИТКУ МІЖНАРОДНОГО БІЗНЕСУ**

*В статті проаналізовано основні тенденції теперішнього розвитку франчайзингу в світі. Досліджені основні перспективи становлення франчайзингу в Україні. Виокремлено основні проблеми розвитку франчайзингу в Україні.*

**Ключові слова.** Франчайзинг, франчайзі, франшиза, інтегрована форма бізнесу.

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*В статье проанализировано основные тенденции современного развития франчайзинга в мире. Рассмотрены перспективы становления франчайзинга на Украине. Выделены основные проблемы развития франчайзинга на Украине.*

**Ключевые слова.** Франчайзинг, франчайзи, франшиза, интегрированная форма бизнеса.

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