

Franchising as a Tool for Small and Medium Business Development

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Abstract

The article explains how to improve efficiency and extend the life of small and medium-sized businesses with franchising support. Franchising is a way of distributing products and services, the method of expansion of successful enterprises. The attractiveness of franchising is due to its extensive development in the global and domestic economy. The world practice shows that the franchising method of business organization and development is widely used in many countries around the world. Franchising significantly reduces the risks associated with the creation in starting business. Franchising is spread in different ways, depending on the country, customs, culture, and especially all that is related to the socio-economic history of the trade, the development level and economic system.

Keywords: franchising, trade, small and medium business (SMB), entrepreneur, Commerce and Industry Chamber (CIC), World Trade Organization (WTO).

1. Introduction

Modern international business is characterized by a number of factors hindering its development. In particular, there is a need to expand selling of manufactured products, attracting experts in the dealer network in large firms; improve efficiency and extend the life of small and medium-sized businesses. In addition, there are difficulties in the interaction of small and large business process.

Solving these problems requires new economic mechanisms. In particular, one of such mechanisms is franchising that allows to increase the profitability of small and medium businesses by combining the advantages of small and large businesses.

Franchising is a way of distributing products and services, the method of expansion of successful enterprises. One of the reasons for franchising process is a special effect of cooperation between a franchisee and a franchisor, united under one brand name. Together they can undertake activities that is daunting for individual entrepreneurs.

The attractiveness of franchising is due to its extensive development in the global and domestic economy, the complex nature of the relationship, a fairly high level of transparency, as well as the advantages of mutually beneficial relations system, which in turn allows to create a network with the efficient allocation of capital, create an extensive system for distribution goods and services, to strengthen the competitive advantages of network participants in relation to the other participants in the same market, enable to enter a market faster with minimal risk of new participants in the system (Kolesnikov, 2008). Thus, franchising gives greater chances for success, therefore it is becoming an increasingly popular way of organizing business worldwide.

2. Methodology

2.1 Franchising Market in the world

The world practice shows that the franchising method of business organization and development is widely used in many countries all over the world.

This is due to the fact that franchising significantly reduces the risks associated with the creation of new business. The franchisor does not invest his own funds in the development of network, while having the opportunity to receive income from its work, in its turn, the franchisee uses the experience and support of his/her partner, by buying elaborate

and proven business scheme.

Each state has its own system of franchising relationships regulation, however, we can identify a number of common features in franchising and its defining concepts in almost all foreign systems.

Thus, the franchising is primarily a way of organizing business relations fixed in the contract that defines conditions for the establishment and running of a joint business in which one party (the franchisee) has the right to charge for the use of the trademark and technologies of his/her partner (the franchisor) ().

At the beginning of 2010, special laws on franchising existed only in 3 countries (the USA, Romania and Moldova). In other countries, such as France, Germany and Russia, the legal regulation of franchising is carried out by using standards set in codified acts, laws related to business activities, by various subordinate legislative acts made by the executive bodies of executive power or business customs in accordance with documents of specialized non-governmental organizations, etc...The European Code of Ethics for Franchising adopted in 1972 contributes for the universal use of the definition of franchising.

Nowadays, the main exporters of franchising businesses around the world are the United States, with Germany, Great Britain and France holding the leading positions in Europe.

The undisputed world leader and the founder of modern franchising is the USA. The success of the American franchising is largely determined by the support of the state, a serious attitude for promoting brands, sustainability strategies, strong marketing positions, adopting, improving and implementing quality standards of product and business systems as a whole (Gorfinkel, 2008; M. Salar and O. Salar, 2014).

American franchising systems are actively developing in many countries. American franchisors find the most profitable way to enter the foreign market to be the development of franchising networks. This helps to reduce investment risks and implement expansion and promotion in the market, attracting private capital in the country of presence.

Europeans also recognized franchising as a promising system of business development. Since 2002, activity in the development and promotion of networks has been used virtually throughout Europe (Rysman, 2001).

Franchising in Europe is spread in different ways, depending on the country, customs, culture, and especially all that is related to the socio-economic history of the trade, the level of development and economic system. Thus, franchisee in some countries prefer franchising in the field of service (UK, Germany), others - in the area of distribution (France). At the same time, franchising does not actually exist in certain areas: for example, in Germany there is no such business in the hotel industry.

Overview of Franchising in Europe produced by the European Federation of Franchising has shown that in Europe there are 6,500 franchised brands operating in 20 different countries. Nevertheless, the rate of development of franchising business is much lower in Europe than in the USA (Danta, Grünhagenb and Windspergerc, 2011).

Among European countries, leading position in the spread of the franchising takes France. There are more than 1,037 of franchisors and 35 000 f of franchisee.

The favorable situation in the market of franchising promotes foreign franchises in Germany. It has 910 franchise networks, 55,700 franchisees, in Germany 40% of the market share of franchising belongs to the services market, 28% - restaurants and hotels, and 8% are engaged in trade. UK takes the third place in Europe (after France and Germany) in the number of franchising networks. It has about 800 franchisors with an annual sales of 21.7 billion US dollars., and more than 340,000 professionals directly involved in the sector.

Denmark is known for a limited market for franchising networks, and, nevertheless, is an attractive country for the application of the franchising system due to its easy access to the Scandinavian countries.

Franchising is a relatively new industry in the Central and South-eastern European countries (Jindal, 2011).

Leaders in the implementation of franchising systems in Central and South-Eastern Europe are the Czech Republic, Hungary, Poland, Bulgaria and Romania.

The region recorded strong competition between American and Western - European franchisors. Also in these countries there are high rates of development of retail trade and services.

Franchising is also developing in the countries of the former Soviet Union: Kazakhstan, Moldova, Belarus, Uzbekistan and Azerbaijan.

Ukrainian companies are gradually beginning to develop new business technology. At present, franchising principles are used by about 400 companies in 90 industries.

In the Ukrainian market there are both foreign and domestic franchisors, the proportion of the latter (in quantitative terms) is about 50%. Some originally Ukrainian companies have franchising businesses in other countries (e.g., «FFS», «Ageg», "Jeans Super Price», «VD one»).

2.2 Franchising Market in Kazakhstan

Kazakhstan is currently experiencing rapid development of franchising that is determined the state economy. The country has accumulated huge amount of money supply, but there are no objects of investment. Under development of the stock market hinders the public to use this resource for investment. From this point of view, franchising schemes have become one of the most attractive.

The motivation for franchise acquisition is to use the system of business organization, innovation, image and support of a larger company that helps to reduce the challenges and risks faced by the majority of "independent" of entrepreneurs, including experienced businesspeople. Franchising in the world is used in almost all areas of economic activity, contributes to the large-scale dissemination of advanced knowledge and new technologies. According to experts the trade takes up about 50% in the field of franchising, 35% in the service sector, 15% in the production sector. In economically developed countries the number of franchise relations increases every year, accounting to 60% in the share of small and medium-sized enterprises (Zhuirikov, 2014).

In Kazakhstan, about 4% of small and medium businesses operate basing on franchising while in other Central Asian countries – no more than 1%. This statistic shows that franchising leaves wide horizons in its application. Thus the development of franchising contributes to the solution of such problems of a state as promotion of entrepreneurship, job creation, introduction of advanced technology into business practices, the development of regional markets and international trade, providing the population with quality goods and services.

The peculiarity of the franchising market in Kazakhstan is its sublicense. International franchisors prefer to operate in Kazakhstan through its Russian or Turkish master franchisees, who in turn sell the franchise on terms of subfranchising.

In recent years, franchising activity increased significantly in Uzbekistan. This applies both to popularization of the idea of franchising and activity of entrepreneurs who want to buy a franchise to do business. This fact is due to the creation of Commerce and Industry Chamber (CIC) of Uzbekistan, which is actively engaged in the promotion of franchising in Uzbekistan.

In Kazakhstan the franchising is best developed in stagnant areas of the economy where competition is greatest. All kinds of franchises are profitable for franchisors, but at every stage of company development different variants of franchise relations are possible. The most popular franchises in the country are concentrated in the field of fast food and trade.

Among the features of Kazakhstani franchising we can identify its unevenly spread across the country, the rejection of most franchisors from establishing fee for franchisees, franchisors' defining of fixed prices for the franchisee goods and services rendered; limiting the franchise agreement term.

The present situation in the market allows us to state that there is a rapid growth in the use of franchising: both in domestic and foreign markets for goods and services (Toxanova, 2007). Franchising is an effective system that allows small and medium businesses to enhance their reputation and status the shortest terms, and for larger companies to prove their worth on the market and increase capital.

One of the tools for the development of high-tech small and medium business is the development of franchising. There is a significant difference between the supply and demand for the franchise, same situation is typical for all countries of the world. So, out of 2,000 franchisors interested in Kazakh market, only 350 have found partners. The structure of networks is heterogeneous, virtually there are no purely franchise network, mainly only mixed network are preset in the market that consist of its own and franchised outlets. Turnover of all franchise companies reached 550 million US dollars.

Currently franchising in Kazakhstan is used in virtually all sectors of the economy and has the largest share in the trade sector, services for the population and different production. In 2013 small and medium business sector franchising relations ratio was 7%, which is higher compared to 3.5% in 2012, while the share of small and medium business (SMB) in the gross domestic product (GDP) in 2011 was 17.5%, which is lower compared to 2010 - 13.3%, in 2009 - 14.2%.

The reason for SMB in GDP failing is due to lowering number of small businesses. Analysis of the franchise companies in the spheres of activity in the domestic market has shown that in Kazakhstan it is difficult to develop the manufacturing sector, the number of companies operating in the field of production franchise is - 15, or 23.4%, they are common in the trade - 46%, then comes the food services - 22, public services - 11%, travel - 7%, other areas of economic activity occupy small rate - less than 5%.

Number of Kazakhstani franchise networks account for 37 units, the number of franchised Kazakhstani outlets - 189. Foreign networks, which cover 90% of the market, are mostly presented by trade franchise. The volume of franchising in Kazakhstan in SMB is 3.5%. The volume of retail trade turnover through franchised networks in

Kazakhstan is 1.5%. For comparison, the volume of franchising in the in SMBs in Germany is 45% and the volume of retail trade turnover through franchise networks in Germany is 60%.

However, the analysis shows that in the structure of SMB development in Kazakhstan, the main share, although it remains in the sphere of trade is 38.5%, but in the classification of economic activity trade is counted along with the sector car and motorcycle repairs, and in those areas where the largest share of small and medium businesses (agriculture - 22.4%, transport - 8.2%), franchising is least developed (Kisikov, 2011).

As seen, franchising will develop more actively in the services sector, it is possible that it will be used in priority areas economy, one of which has the potential to become agricultural production, transport, construction.

The main features of franchising market in Kazakhstan are sublicense and international franchisors who prefer to work in Kazakhstan through its licensees, providing them with the master franchise for a number of countries, and licensees enter into sublicense agreements in Kazakhstan, and Kazakh companies act as subfranchisee (sub-licensees).

In Kazakhstan, there a number of currently operating global brands such as «World Class», «Pizza Hut», «BURGER KING», «Gloria Jeans», «Coca-Cola», «Adidas», «Benetton» and many others. However, widespread are only low-budget franchise in trade of consumer goods, services, handicrafts. Companies, which are considered as a symbol of the franchise, with tens of thousands of locations worldwide, are not available in the Kazakhstan market, although Kazakhstani business SMB are ready to cooperate. (Toxanova, 2007)

At present, many entrepreneurs are showing interest in buying a franchise under the "Business Road Map - 2020" program. Modern technologies of fish processing, innovations in bakery equipment, questions of optimizing the feeding of animals and birds using natural nanobiological catalysts. These are the main directions of development of franchising in Kazakhstan. State support for franchising in the Republic of Kazakhstan carried out by state authorities for support of franchise relationships, and their functions are determined by the Government of the Republic of Kazakhstan. Unlike many developed countries, in Kazakhstan there are no special measures (incentives, subsidies, etc.) to support and develop franchising.

Despite all the usefulness of studying foreign experience franchising, the system should operate under the laws of the Republic of Kazakhstan (RK), taking into account the sectoral and regional characteristics, as well as the psychological perception of the country's population. The possibility of mass development of franchising in Kazakhstan will be provided only if there are changes in the legislation governing intellectual property of Kazakhstan, including trademark, as well as legal relations under the contract of complex entrepreneurial license (franchising) ("Information about franchises CIS (Commonwealth of Independent States) countries", 2014; Murphy, 2006).

The most represented franchising in Kazakhstan is distributive (trade) franchising, while in Western Europe the share of "business - format" is much higher. In the Republic of Kazakhstan there are very few examples of interaction of large companies and small businesses. Although in other countries all around the world both corporate and state franchises are very commonly spread.

The main problems of the development of franchising in the country are the inadequate protection of intellectual property; opacity of domestic entrepreneurship; lack of awareness about franchising as a profitable form of business activity; limited access of entrepreneurs to the so-called "long money"; hyperinflationary rise in property prices, which is a significant barrier to the development of franchising in general; underdevelopment of the stock market does not allow its use as a source of investment.

The weak banking system of Kazakhstan is also one of the factors that restrain franchising. Kazakhstan banks mainly make credit transactions only if the security is presented that client can provide the as collateral or sustainable business.

In addition, credit operations are limited in the amount, which in their turn are different in different regions, but as a rule, most of the resources are located in the regions.

In 2009, the Entrepreneurship Development Fund "DAMU" was the only organization in the country that declared priority of financial and non-financial assistance in the development of franchising in its strategic objectives. Among the strategic objectives of the fund were: to ensure 35% of franchise in the share of Kazakhstan's business and bring Kazakhstan 25 franchised brands to foreign markets by 2015 (Entrepreneurship Development Fund "DAMU", www.damu.kz/293).

One of the major outcomes of the largest companies of trading business has been active implementation of business processes designed to optimize the performance of the regional food and non-food retail in light of the arrival on the market retailers.

3. Conclusion

Despite its huge potential, modern Kazakhstan economy can effectively develop only with the active cooperation with the world market of goods and services. In turn, the rules of the game in the global market are now determined by countries collectively, with the decisive role of the World Trade Organization (WTO), which unites 150 countries and covers more than 95% of world trade turnover (Plave Lee, 2010; Seid, 2006).

4. Findings

Number of Kazakhstani franchise networks account for 37 units, the number of franchised Kazakhstani outlets - 189. Foreign networks, which cover 90% of the market, are mostly presented by trade franchise. The volume of franchising in Kazakhstan in SMB is 3.5%. The volume of retail trade turnover through franchised networks in Kazakhstan is 1.5%. For comparison, the volume of franchising in the SMB in Germany is 45% and the volume of retail trade turnover through franchise networks in Germany is 60%.

It is necessary to implement the following set of measures in order to promote franchising in Kazakhstani market: a large-scale promotion of this form of business creation (percentage of failures is reduced by 3 times);

In order to promote the franchise to the Kazakh market is necessary: a large-scale promotion of this form of business creation (percentage of bankruptcies is reduced by 3 times); the creation of shops selling franchises (subject to the Russian experience); improving the system of intellectual property protection; revitalization of the Kazakhstan Franchise Association; improvement of franchising legislation.

Factors that hinder the development of franchising in Kazakhstan lie in the economic sphere and are associated with low levels of organizational and legal development in this sphere and the socio-psychological problems.

There are enough of opportunities in the country for developing franchising. But to realize these opportunities it is necessary to create certain conditions: first, the creation of a complete system of legal acts regulating franchising. Secondly, to include franchise development in the government program of small-business support program. It is crucial to establish a system of tax benefits for franchisors and the franchisees; especially at the initial stage of development of the franchise system. It is advisable to allow franchisees to use simplified accounting system. It is also necessary to create a broad network of educational and counseling centers on franchising, not only in the center, but all across the country. But, in general, there are great prospects for franchising in Kazakhstan. Its development will contribute to the development of entrepreneurship in general, creation of more jobs, more rapid vocational training, improvement the quality of business, improvement the ethical climate of the domestic business, gain development of new technologies of small business.

The present situation in the market allows us to state that there is a rapid growth in the use of franchising: both in domestic and foreign markets for goods and services. Franchising is an effective system that allows small and medium businesses to enhance their reputation and status the shortest terms, and for larger companies to prove their worth on the market and increase capital.

Predicting the development of franchising in Kazakhstan, it should be noted that in the nearest future a high interest in the highlighted form of starting and running business is expected. Kazakhstan is about to join the WTO, the member of Eurasian Economic Union, which will increase flow of funds, and it will allow the formation and development of small businesses, including the development of franchise relations. Simplifying and streamlining procedures for conformity of products to meet international standards will increase funds turnover, but it will also enable Kazakhstan to obtain access to modern technologies, which can be used for the development of different areas of small and medium businesses.

One of the key points of agreements of WTO rules is the state support provided to manufacturers. It should be noted that support for manufacturers is not the same as for small scale businesses which creates an additional advantage in the distribution of resources in the development of small businesses, where responsibility to intellectual property rights of Kazakhstani manufacturers and consumer rights will strengthen.

Thus, we can assume that Kazakhstan have potential for the development of franchising, which can be an effective tool for dealing with public policy objectives and raising competitiveness of business structures.

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