

FRANCHISING AS AN INNOVATIVE FORM OF BUSINESS MANAGEMENT IN UKRAINE**Penchuk G.,***candidate of Economic Sciences, Associate Professor, Associate Professor of the Labor Economics and Management Department, National University of food technologies, Kyiv, Ukraine***Tur O.***candidate of Economic Sciences, Associate Professor, Associate Professor of the Labor Economics and Management Department, National University of food technologies, Kyiv, Ukraine***Abstract**

The article is devoted to the study of franchising as an innovative form of Business Management in Ukraine. Its condition, structure, and capacity are analyzed. Problems and trends in the development of franchising are identified. Measures to improve the conditions of its development in Ukraine are proposed.

Keywords: franchising, business, management, franchisor, franchise.

The activation of globalization processes, increased competition and growing uncertainty of the external environment directly increase the risk of business activity. Under such conditions, an effective way to minimize risks is to form partnerships and strengthen cooperation between enterprises. This will enable them to achieve, maintain and strengthen their competitive advantages, ensure sustainable development, and exchange progressive experience. One form of such relations is franchising, since it meets all the main features of partnership relations between enterprises [11].

In the domestic and foreign scientific literature, there is considerable attention from representatives of various sciences to the problems of franchise development, in particular: D. Bayury, G. J. Bolt, M. Dudchenko, J. Evans, D. Kaufman, A. Kredisov, O. Kuzmin, E. Panchenko, J. Stiglitz and others.

The considered works reveal the meaning of the concept of "franchising", its features, forms and methods, advantages and disadvantages of doing business on a franchise basis, and so on.

However, changing environmental factors require constant analysis of the prospects for further development of franchising as an innovative form of business management.

Franchising is a method of distributing goods or services by licensing business processes, goods, services, or intellectual property. In the future, this information will be used by investors to build a business based on a ready-made business model. This method of doing business consists in the fact that the owner company (franchisor) grants an independent businessman or company (franchisee) the right to sell goods and services of this company in return for the obligation of the

franchisee to sell these goods or services in compliance with certain quality characteristics, using specified technologies, according to a developed scheme, in a clearly defined place, under a certain trademark.

Franchising as a special form of business organization that based on the principles of marketing (business franchising) or distribution of goods. The essence of franchising as a form of business management considered better and in more detail on the example of the mechanism of application of its individual types, because each of them has significant features and principles of application. The most common classification is the division of franchising into such types as business franchising and traditional or product franchising [8].

Over the past 10 years, the franchise business model has gained popularity all over the world, especially in Brazil, China and Mexico. According to the International Franchise Association (IFA), their members see expansion abroad as an important way to diversify their portfolio. For example, a survey of IFA members in 2017 showed that 61% of respondents currently already operate abroad. Almost three-quarters of respondents said they plan to start or accelerate international expansion [12].

In Ukraine, franchising began to develop in the mid-1990s, but its active growth began in 2004. The first restaurant of the company "Fast Food Systems" (FFS) brand "Pizza Celentano" opened in August 1998 in Lviv [1].

In 2019 the number of franchisors in Ukraine constituted 504 enterprises and during 2001-2019 increased almost 10.5 times (figure 1).

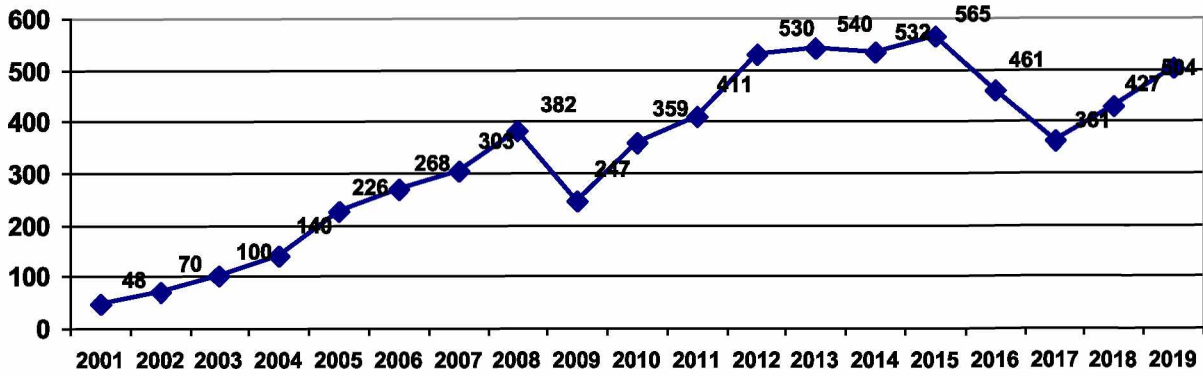


Figure 1. Dynamics of the number of franchisors in Ukraine, 2001-2019

Source: [10]

The largest reduction of this indicator occurred in 2009 (by 35%). The reason for this decline was the financial and economic crisis and the deterioration of the general operating conditions of franchisors, which negatively affected employment indicators. The highest indicator of the number of franchisors in Ukraine was in 2015 and constituted 565 enterprises. However, during 2016-2017, there was again a period of its decline, which was due to the annexation of Crimea and the difficult economic situation of the country because of the military-political conflict between Ukraine and Russia

[9].

As to the structure of franchise facilities, 24,162 new enterprises were created in Ukraine in 2018. 5,128 (21%) of which were owned by franchise companies, and 19,034 (79%) were registered due to the sale of franchises (figure 2). In addition, during 2016-2018, the part of own facilities decreased from 24% to 21%, and franchise facilities increased from 76% to 79%, respectively. The absolute number of franchise facilities for the above-mentioned period increased by 8,584 units. [10].

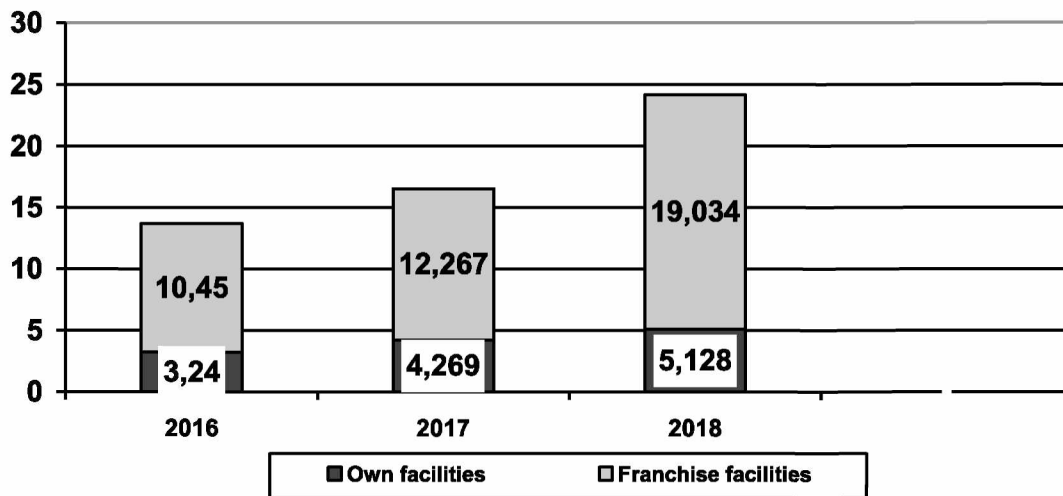


Figure 2. Dynamics of own and franchise facilities of franchise companies, 2016-2018

Source: [10]

In terms of market capacity in 2018, the largest number of franchises belonged to consumer services - 48% of the total number. Retail services constituted 29%. Food retail has grown significantly due to the

"shop near home" format, while non-food retail is developing steadily. The smallest part belonged to the public catering sector – 23%. During 2018, 913 facilities were closed (16% decline) (figure 3). However, in 2019, the situation somewhat stabilized [10].

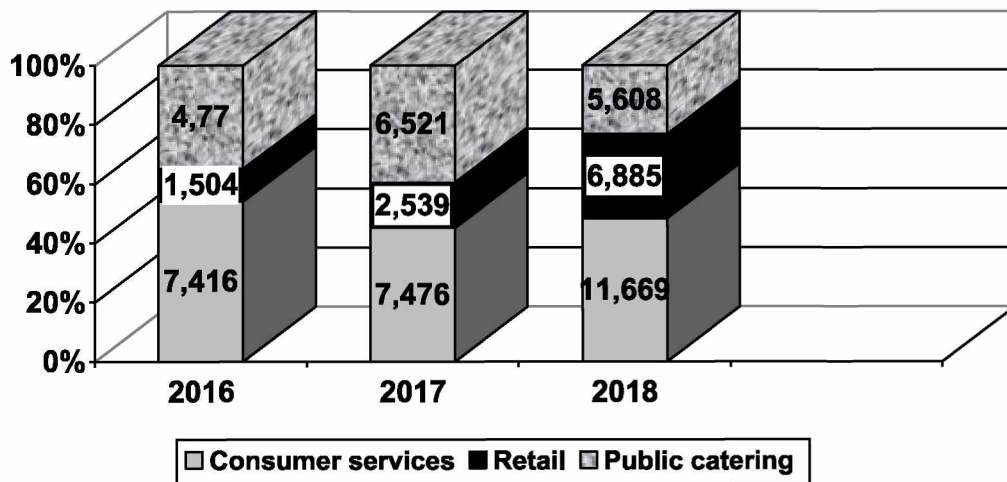


Figure 3. Dynamics of market capacity of own and franchise facilities.

Source: [10]

Generally in 2019 on the franchise market dominate domestic franchises: "Pizza Celentano", "Kartoplyana Khata (Potato House)", "New York Street Pizza", "Dva Gusya", "Nasha Ryaba", "Chyudo Pich", "Naminayko", "Nash Krai", etc. [4].

The most promising franchise project in 2019 was "Nash Krai" supermarket, which has shops throughout Ukraine. Currently, 278 outlets have been opened, 249 of which are franchised and 29 are own. The advantage of such a franchise is the absence of lump-sum entrance contributions or advertising fees, the payback period is from five months, and the monthly royalty is 3.5 €/sq. m. Investment for opening a retail outlet is from 300-400 €/sq. m.

Generally, domestic franchisors dominate in Ukraine. However, franchise networks from Russia, Poland, The Netherlands, France, the USA, Germany, Great Britain and other countries are also represented on the territory of our country. Most of the foreign fran-

chisors (25% of the total number) are Russian representatives (figure 4).

The functioning of foreign franchisors on the territory of Ukraine has certain positive consequences. In particular, it provides an opportunity to take over the successful experience of doing business on a franchise basis, sufficient for the broader development of its contractual system in Ukraine. In addition, due to their activities Ukrainian market receives new goods and services [3].

Consequently, the Ukrainian market is actively developing in a systematic approach to the formation of franchises. Companies are implementing franchising as a strategy. The positions of "franchise manager" and others appear on the labor market [10].

However, despite its overall development, it should also be noted that there are a number of problems that hinder the development of franchising and need to be solved.

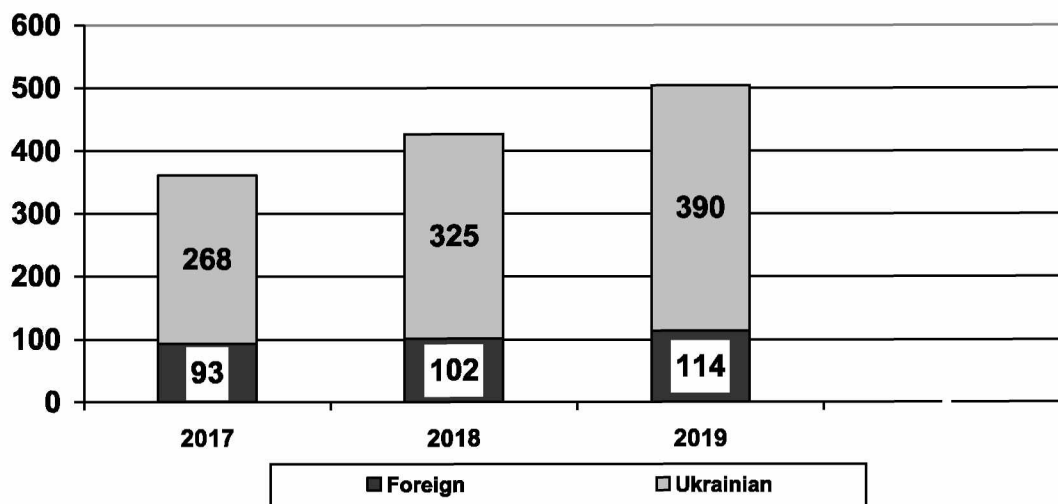


Figure 4. Origin of franchise brands, 2016-2019

Source: [6]

First, these problems are related to [2; 7]:

- instability and unpredictability of the domestic economy, difficult political situation, military operations in the East of Ukraine;

- imperfection of the legislative framework, namely the absence of the law of Ukraine "About franchising";
- lack of state support for franchising;

- imperfect tax policy. The Tax Code of Ukraine significantly narrows the prospects for the development of franchising and franchisors have to find workarounds in making payments of "royalties" and lump-sum payments to their partners. The country does not have a system of tax relief for franchising;

- non-compliance with international standards and low competitiveness of domestic franchises. According to the Ukrainian Franchise Association, only five franchises were sold outside the country (most of the buyers of these franchises were immigrants from our country);

- insufficient information about franchising;

- insecurity of Ukrainian franchisees in franchise relations with foreign partners;

- material risks always remain with the franchisee.

The fact is that franchisees, who bear the capital costs of opening a new enterprise, often overestimate their capabilities, do not study the specifics of the market to implement someone else's idea. Often, the franchisee does not pay due attention to the details of the concluded contract. The consequences can be very undesirable: at the end of the term, the franchisor wants to change the terms, or completely refuse to extend the contract, while the franchisee has not yet managed to reach a normal level of profitability;

- insufficient experience of franchisors in basic principles and features of doing business under the terms of franchising;

- the high cost of the franchise compared to the purchasing power of customers;

- unwillingness of domestic entrepreneurs to adhere strictly to the standards of activity established by the franchisor, which can negatively affect the brand image of the franchise network;

- inability to test the business;

- lack of personnel;

- difficult conditions and administrative barriers to organize and conduct business [1].

For the further positive development of franchising as an innovative form of Business Management in Ukraine, it is advisable, in our opinion, first:

- to intensify the activities of the Ukrainian Franchise Association (UFA);

- to draft and adopt the law of Ukraine "About franchising", which would regulate in detail the essence, properties of franchising, its varieties, important terms of the franchise agreement;

- to study the experience of other firms, including foreign ones, in applying franchise relations, taking into account the peculiarities of the Ukrainian economy;

- to impose obligations on entrepreneurs to fulfill faithfully all obligations towards franchisees;

- to ensure the availability of credit for businesses that want to work on franchise terms;

- to create a system of tax benefits for franchisee firms, especially at the beginning of development of the franchise system;

- to organize a network of training programs on franchising;

- to provide popularization, consulting and information support for franchising through consulting centers that can function under state bodies that ensure the implementation of State Economic Policy.

Solving these tasks and eliminating existing shortcomings will help stimulate the development of Civil Law relations in the field of franchising in Ukraine and will allow:

- to improve the overall culture of franchise relations and its legal protection;

- to create new jobs, to form a Bank of new ideas, methods and technologies in the franchise business;

- to increase the effectiveness of positive state influence on the development of certain types of franchise activities;

- to create a comprehensive system of practical franchise training without organizing any special training structures and programs;

- to attract significant foreign investment in the Ukrainian economy, as the development of international franchising involves investing capital in the creation of pilot projects.

So, franchising is an effective model of business development. However, for the successful development of franchise networks in Ukraine, economic stability is necessary, in which business owners will be able to invest in the development of their own business, and the population will have a high level of solvency. Also an important factor in the success of the franchise business is the existing of a legal framework that guarantees transparency of regulation of this area of business and a clear sharing of obligations between the franchisor and the franchisee [8]. This in turn provides the development and adoption of the law of Ukraine "About franchising" and the introduction of appropriate changes to related regulations. It is also necessary to include in the government program measures to support it, create a system of tax benefits for franchisees, especially at the initial stage of development of the franchise system, a network of training and consulting centers on franchising throughout Ukraine, etc.

The implementation of these points will help, in our opinion, to improve the conditions for the development of franchising as an innovative form of Business Management in Ukraine.

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