

УДК 336.748(045)

**T. Khoshtaria**

### **THE CONCEPT OF BUSINESS FORMAT FRANCHISING AS AN INTERNATIONAL MARKET ENTRY STRATEGY.**

*The development of franchising as a business concept was inspired by the deep inroads made by chain stores in certain fields of retailing and the need to become better operators in different areas. It is probably here where the concept of business format franchising evolved.*

**Keywords:** Business, Franchising, Market, Strategy, Trade, Export, Import, Licensing, Joint venture.

Franchising is often referred to as the “Best ambassador of free enterprise in the world”. It is therefore no wonder that as a business strategy, franchising has become a global phenomenon. It has highlighted the value of entrepreneurship and the importance of the small and medium enterprise market in the economic development of countries. It has changed the lives of people, created wealth and revived the spirit of hope for many through job creation and skills development. Franchising has in fact made the world a global village. But “the word ‘franchise’ is one of the most misunderstood and abused words used in the conduct of commerce. It is often used to describe the value of an individual or brand, or to describe a relationship. Seldom, or ever is it used to expound on the potential to build a robust professional and economic life” (Pathway to wealth creation, Spinelli, Roseberg, Birley, 2004).

#### **BUSINESS FORMAT FRANCHISING**

Franchising is a business strategy for getting and keeping customers. It is a marketing system for creating an image in the minds of current and future customers about how the company's products and services can help them. It is a method for distributing products and services, that satisfy customer needs and allows them to share:

- A brand identification
- A successful method of doing business
- A proven marketing and distribution system

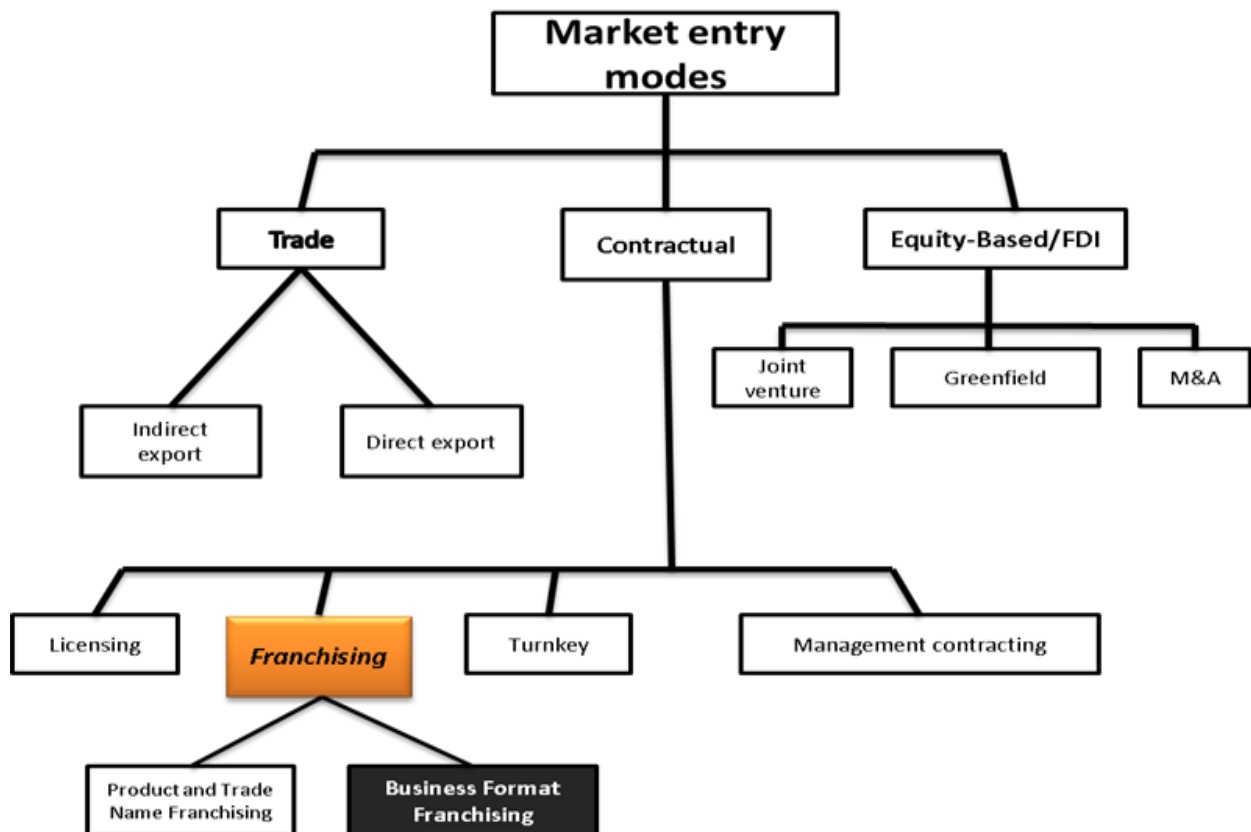
Business format or system franchises add an extra layer, through the imposition of a business format or an entire system for running a business, including a business plan, management system, location, appearance, image, and quality of goods and services. In a business format franchise, each franchised outlet or business should look and act the same. It should provide an identical product or service of identical quality. While each is independently owned and operated, this should make no difference to what the customer receives. McDonalds' hamburgers should taste the same wherever you buy them. The defining characteristics of a business format franchise are:

- The ownership by the franchisor of a name and trade mark, an idea, a secret process or a piece of equipment, and the goodwill and know-how that is associated with it.

- The grant of a licence (the franchise) by the franchisor to another person (the franchisee) permitting the franchisee to exploit this.
- The inclusion in the franchise agreement (and elsewhere such as a manual) of regulations and controls relating to the way the franchisee exploits its rights.
- Payment by the franchisee to the franchisor for the right to operate the franchise. This can take various forms, such as a royalty on turnover, or a surcharge for the product supplied by the franchise.
- Provision of trading and support by the franchisor to the franchisee to enable the franchisee to carry on its business according to the franchisor's system.

### FRANCHISING IN THE MARKET ENTRY MODES

**Diagram 1** illustrates several options of penetrating new markets on international level. As we can see franchising is one of the strategies, which comprises: **Product and Trade Name Franchising** and **Business Format Franchising**.



**Diagram 1**

**Source:** Johnson D. Turner C. *International business*

Within each franchise model, there are different types of franchising business. Before you consider individual franchise opportunities, you should give some consideration to which type of business you would like to run. Types of franchise include: **Retail, Business-to-business management, Single Operator Franchise – MANUAL, Single Operator Franchise – EXECUTIVE.**

In business format franchising as our assignment deals with, the franchise agreement gives the franchisee rights to use a complete system for doing business, including logos and trademarks and the right to operate under the franchisor's trade name. The franchisee pays an upfront franchise fee and continuing royalties which enable the franchisor to provide ongoing research and development and support for the individual franchisee and business system. This franchise model covers a wide range of businesses including fast food restaurants, automotive services, estate agents, convenience stores, recruitment agencies and consultancy.

### **ADVANTAGES AND DISADVANTAGES OF FRANCHISING (Comparison to other entry strategies)**

The benefit of a franchise system for a franchisor is that it develops and expands the coverage of its business and trade name without the need for the franchisor to find the capital and also to operate the individual business itself. Franchises are often attractive to those who are inexperienced in business. Ready access to a business system with a developed brand and with expertise on call to see them through any problems offers considerable advantages. It is no coincidence that the failure rate for start-up franchised businesses is much lower than it is for non-franchised start-up businesses. The new business does not have to learn by its own mistakes: any glitches in business methods should already have been ironed out by the franchisor. The relationship between a franchisor and franchisee is a continuing one, in which each party is reliant on the other for their respective businesses to succeed. While a franchise is very similar to a trade mark licence, it does have some significant differences.

*First*, while a franchise is a contract between the franchisor and franchisee, the franchisor also has contracts and relationships with a number of other franchisees. The franchisee can be seriously affected by the health of the relationship between the franchisor and its other franchisees. A group of disgruntled franchisees can damage the health of the franchise network, and have a seriously adverse affect on the successful operation of other franchises.

*Secondly*, where a trade mark owner licenses another party, that party is often chosen for its ability to adequately manufacture or distribute a particular product or service. The licensee is chosen for its skills in the area. In a franchise situation, a franchisor will frequently choose, and in fact often prefers, franchisees inexperienced in a particular industry, so that they are amenable to being taught the franchiser's tried and tested methods of operation. Because the franchisor has already tested out the most successful methods of performing the particular service producing a particular product, the franchisee does not have to go through the process of trial and error that occurs in a new business. The success rate of franchises is therefore much higher. Of new businesses, only one in five survives the first five years, while 70-80% of franchised businesses successfully survive that initial five year period.

Table 1

<b>STRATEGIC ALLIANCES FOR INTERNATIONAL MARKET ENTRY STRATEGIES</b>			
<b>Mode of entry</b>	<b>Definition</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Exportation</b>	To ship a product outside the country	Limited investment low risk  Helped by agents or sales representatives	Higher unit cost to customer  Likely lower market share  Limited learning on country market characteristics
<b>Franchising</b>	It's an ongoing business relationship where the franchisor grants to the franchisee the right to distribute goods or services using the franchisor's brand and system in exchange for a fee	Rapid market expansion  Intellectual property, capital and networks already in place	Restrictions on the business  Costs can be higher than expected
<b>Licensing</b>	A licensor permit an other company to use the manufacturing, processing, trademark, know how or some other skill provided by the licence sort for a fee.	Easy access to global markets  Profitability with little investment  To avoid tariffs and quotas	Limited participation (specific product, process of trademark, lack of control)  Create future competitors
<b>Joint venture</b>	An exporter and a domestic company in the target market join together to form a new incorporated company. Both parties provide equity and resources to the joint venture and share in the management, profits and losses.	Spread the risk of a large project over more than one firm  Acquire competencies or skills not available in-house  Enable faster entry and payback  Avoid tariff barriers and satisfy local content	Maybe impossible to recover capital invested  Incur significant costs of coordination and Control  Partners do not have full control of management and can turn into competitors

		requirements	Disagreement on point of view between partners
<b>Merger/Acquisition</b>	An exporter merges with a domestic company in the target market and create a new entity. The domestic company still trade under its own company name with ownership and direction controlled by the exporting company.	<p>Decrease time to access and penetrate target market because the domestic company has already its product line</p> <p>Prevent an increase in the number of competitors in the market</p> <p>Overcome entry barriers including restrictions on skills, technology, materials</p> <p>supply and patents</p>	<p><b>Increased risk</b></p> <p>Incompatible corporate cultures and overly optimistic appraisal of synergies</p> <p>Target too large or too small and</p> <p>overestimation of market potential</p>

## CONCLUSION

Overall we can say, whilst, franchising is one of the best options of going internationally it does not suit everyone. Strict conformity with their franchisor's prescribed methods can be stifling to some franchisees who believe they can "do it better". The franchisee must be prepared to work in conformity with the franchise system, otherwise the franchise system will be weakened by a series of the franchisees each "doing their own thing". This is not to say that the franchise system cannot change and be improved. One of the roles of the franchisor is to constantly add value to the system by bringing in innovation and improvement in methods and strengthening the brand, but this must be done consistently throughout the franchise network.

## Referances

1. Blair R. & Lafontaine F. 2005. The economics of franchising. - no place of publication: Cambridge University
2. Birley S., Rosenberg R., & Spinelli S. 2004. Franchising: Pathway to Wealth Creation. s.l. - no place of publication: FT Prentice Hall
3. Johnson D. & Turner C. International business.. - no named publisher
4. Mendelsohn M. 2005. The guide to franchising. Thomson Learning,
5. Monye, Sylvester O. 1997. The international business blueprint. - no place of publication : Blackwell Business
6. <http://www.auditelfranchise.co.uk/choosing-a-franchise/types-of-franchises.php>  
 (Retrieved on 29th of July)

**Т. Хоштарія**  
**КОНЦЕПЦІЯ БІЗНЕС-ФОРМАТУ ФРАНЧАЙЗИНГУ ЯК МІЖНАРОДНОЇ  
СТРАТЕГІЇ ВИХОДУ НА РИНОК**

*Розвиток франчайзингу як бізнес концепції було результатом появи великої кількості мережеских магазинів в деяких сферах роздрібної торгівлі та потреб стати кращими гравцями в конкурентній боротьбі. У даній статті, огляд франчайзингу дозволив визначити його, як найкращий спосіб виходу на міжнародний рівень, проте неможливий для усіх. Відповідно до існуючих досліджень, можна відзначити, що відносини з франчайзерами можуть бути не завжди вигідними для деяких франчайзі, що впевнені що самі можуть зробити краще. Ця концепція висвітлює бізнес формат спроб франчайзингу, для формування чіткої картини наскільки франчайзінг вписується в схему елементів ринку. Остання глава статті присвячена вивченню переваг і недоліків бізнес-формату франчайзингу, з метою визначення відмінності між цим та іншими бізнес-форматами входу на зовнішній ринок.*

УДК 658.7:658.5:69.05.013

**Є.Ю. Антипенко, В.В. Афанасьєв**

**ВПЛИВ ЗОВНІШНЬОГО ТА ВНУТРІШНЬОГО СЕРЕДОВИЩА НА  
СИСТЕМИ УПРАВЛІННЯ ЛАНЦЮГАМИ ПОСТАВОК ПІДПРИЄМСТВА**

*Розглянуті питання пов'язані з дослідженням внутрішнього і зовнішнього середовища функціонування підприємства (на прикладі підприємств будівельної галузі) та їх можливого впливу на процеси управління ланцюгами поставок. Стаття торкається питань удосконалення апарату управління за рахунок визначення, аналізу та подолання ентропії зовнішніх та внутрішніх факторів впливу на ефективність функціонування підприємств.*

**Ключові слова:** внутрішні змінні, зовнішнє середовище, мікрооточення, макрооточення, конкуренти, інфраструктура, технологія, економічний фактор, ентропія.

**Постановка проблеми у загальному вигляді.** Діяльність підприємств будівельної галузі обумовлена високою різноманітністю факторів впливу на внутрішнє і зовнішнє середовище їх функціонування, що вимагає необхідності відмовлення від жорсткої адміністративно-командної системи і переходу до гнучкої системи діяльності будівельних підприємств та проведенням відповідних наукових досліджень.

Процеси удосконалення систем управління ланцюгами поставок (УЛП) зокрема та діяльності будівельних організацій взагалі, забезпечують підвищення ефективності їх функціонування і подолання недоліків, що суттєво стримують будівельне виробництво. Саме ці недоліки є факторами виникнення ентропії в будівельних організаціях.

З метою дослідження питання щодо складу чинників внутрішнього та зовнішнього середовища, їх впливу на ефективність УЛП будівельних підприємств розглянуті праці таких авторів, як Л.В. Бондарчук, О.С. Віханський, І.В. Гончар, П.В. Журавльов, Й.С. Завадський, Н.Є. Ковшун, І.В. Кононова, І.І. Мазур, Т.П. Макаровська, А.І. Наумов, О.А. Осовський, З.П. Румянцева, В.Д. Шапіро, В.Г. Янчевський, та ін. Аналіз праць зазначених авторів показав, що в УЛП будівельних організацій на