

# Analysis of franchising activity in Ukraine

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**Abstract – The present situation of franchising activity in Ukraine, based on comparative analysis of statistic dates has been analyzed. The key problems of it have been synthesized. The main practical tools of identified problems in franchising sphere have been delineated as a result of the research.**

Key words – franchising, franchising variants.

## I. Introduction

There are many international companies that are interested in franchising their services in Ukraine. This opportunity can especially be embraced by foreigners living in Ukraine.

Franchise agreements in Ukraine have been signed from the middle of 1990s, however today in the Ukrainian legislation there is not a term "franchising". In jurisprudence there is a term "commercial concession" and legislation is used on the basis of it. However "commercial concession" doesn't hamper the development of franchising and can be used as a loophole by businessmen in this situation [1].

## II. Page Setup

Franchising has many advantages that can reduce operating costs and increase efficiency of production activities, which is especially important for Ukraine nowadays. However, the Ukrainian franchise market has a number of problems need to be solved. They are as follows:

1. Ukrainian entrepreneurs are unaware of the basic principles of franchising business.

2. The regulations do not meet the content of franchising and business.

3. Franchisees are unprotected (especially Ukrainian franchisees, which have franchise agreements with foreign franchisees).

4. Lack of information about franchising as a method of doing business.

5. Lack of business testing practice. Franchises in the Ukrainian market are varying every day, because new industries and technologies are appearing [2].

The results of economic crisis of 2008 are distinguishable for the Ukrainian franchise market:

- entrepreneurs started analyzing the effectiveness of investing and as a result they became much more interested in buying franchises;

- many companies failed, because they were offering franchises with models that are not able to survive in economically unstable conditions (or management could not manage such models);

- some companies have even stopped their activities.

TABLE 1  
FRANCHISING VARIANTS FOR DEVELOPMENT  
OF THE BUSINESS IN UKRAINE (2013)

Company	Information about franchise:
TM "Namunayko" (fastfood)	Total number of objects in Ukraine 1100 Number of franchised facilities in Ukraine: 440 Down payment (price deductible): \$99 The required initial capital (without space): 15 000 Service fee (royalty) *: No Advertising contribution: not available Payback period: 6 months
Babycenter Kuzya (Child development center)	Introductory payment: - \$17,000 Invest in your own business: 50 000 UAH. Royalties: 750 USD / month within 3 months after opening point; Advertised payment: no; Payback period: 10 months; The fee for opening the 2nd point and the following: \$ 8500
"Mishel" (clothing design studio)	Conditions of purchasing a franchise: franchise cost 5000 USD investment to \$ 1000 (cost oborudovaniya) no royalties advertising fee vidsutniy payback period to 1 year
"Shokoladnyeya" (Coffeeshouse)	Lump-sum contribution of \$ 60'000 Payback period: from 1 - 1.5 years. Total investment: \$ 1,000 per 1 m2 Requirements area: 50 to 200 square meters. of Royalty: 7.0% / month (by turnover)
"Natali Bolgar" (ladieswear)	Terms purchasing a franchise: Cost of Franchise: No Investment: 350 \$ -400 \$ per square meter (including the cost of goods) Royalties: No Advertising :: no contribution Payback period: 12 months
"Zablotsky Clinic TM" (network of dental clinics)	Franchise -€ 100 thousand ; Licensee pay royalties of € 5tys per month for the first five years (starting after 12 months from the signing of the contact) and € 10 thousand per month over the next 5 years; constant support and consulting support ; expertise and training key personnel licensee: Director , as general manager and chief medical officer, as the principal , administrator and primary nurses, as well as participate in the examination and training of all medical staff for a special program by the licensee depending on the location and other characteristics ; branding (advertising) nationally shared by - licensors and licensees ;

In Ukraine, there are already many different foreign franchises, their number could be higher, but many foreign franchisors are eyeing to our terms of business vision, there is no secret that they are still very different from European standards, starting from the registration of its business to all kinds of inspections, made by government agencies. Currently, many local businessmen are negotiating the purchase of promoted and popular franchises in the world, since they have already had positive experience in the local market and need to diversify its business. By buying a franchise of developed foreign business, they save time and money to create a "bicycle". Local franchisors have already put time and money in creating and developing your brand, and began to develop a network, faced with the competition of foreign franchises [3].

Franchising is not as expensive as people think. The required sum can vary range from as low as \$5,000 to as high as a million dollar. It all depends on the level of company enterprise decide to work with. The most popular franchises in Ukraine today are those which need up to 10,000 USD – 15, 000 USD for opening, such as fast-food, vending, and tourism. That is why the franchise market can be regarded as a promising for doing business in Ukraine and we should expect increasing the number of franchisers and especially franchisee.

Total number of businesses in Ukraine that have been developed on the "franchising" has declined over the period 2012-2013 on 46%, however such reduction has qualitatively affected the market by itself. Mainly reduction was caused by franchises that harm the sense of franchising due to accordance with norms of this kind of business relationship on the opinion of Ukrainian Franchising Development Federation. To be more precise, about 200 foreign and Ukrainian trademarks are operating under the system of franchising in Ukraine.

Foreign franchisers who intend to expand to Ukraine may find Ukraine's regulatory framework complicated and tricky, especially, for inexperienced ones. As

franchise is costly, long-term, and complex, there are many practical issues to consider before signing franchise (commercial concession) agreements in Ukraine. Therefore, proper transaction structuring, contract drafting, and knowing which documents are necessary will save a great deal of time and money for franchisers.

## Conclusion

There are many practical tools which are advised to use before and in process of signing franchise (commercial concession) agreements in Ukraine (for both entities):

- 1) using contract drafting;
- 2) previous learning which documents are necessary to collect;
- 3) researching of the past background and experience of franchising entities;
- 4) Insurance risk using the optional license agreements under the conditions of the acquisition of innovative technology solutions.

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