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## The Strategy of Entry of Franchise Networks from the EU into the Ukraine's Market

### Summary

The basic special features of franchise business in Europe are analysed. The mechanism of the performance of franchise relations between EU member-states and Ukraine is studied. The growth rate of the increase in the number of European franchise networks in the Ukrainian market is considered. The experience of the activity of Polish franchise networks in Ukraine is analysed. The efficiency and main advantages of a franchise strategy in the Ukrainian market are proved. The influence of the increase in the number of franchise outlets on Poland's GDP is made clear. The article aims to investigate the special features of a franchise strategy of the entry of European networks into the Ukrainian market. The article is characterized with practical and social implications as regards extending the knowledge of the possibilities to use European franchises in the Ukraine.

**Key words:** franchising, European business, international economic relations, European market.

**JEL codes:** F5, K29, M2

### Introduction

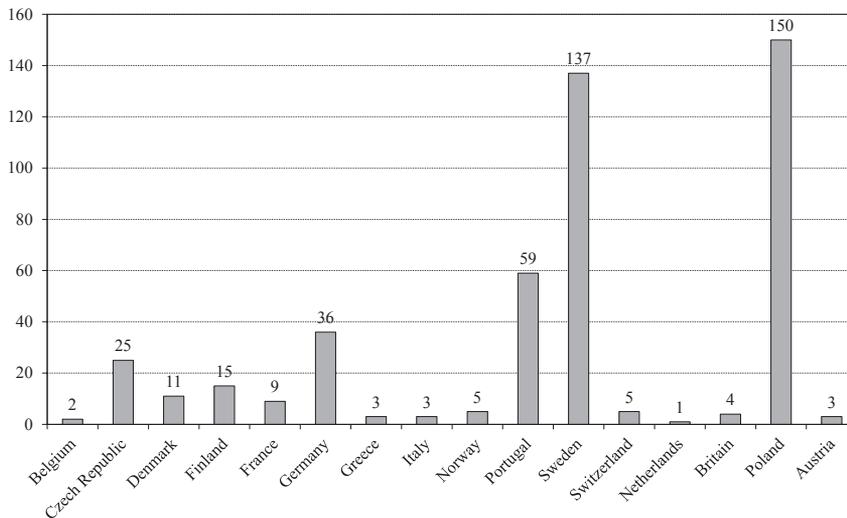
The modern world economy is characterized by a high level of globalization and integration. State borders and significant differences between the economies of countries are becoming less and less visible and considerable. Internationalization and trans-nationalization promote the convergence of national economies, the formation of economic unions and a common free market zone. Franchising promotes the strengthening of economic relations between countries at this stage of their development, as today it is involved in almost all areas of economic activity and is one of the most effective and democratic ways of transcending national markets. This is exactly what makes the issue relevant to the study. Despite the fact that franchising is considered to be a relatively young kind of activity organization, it is a dominant form of doing business both in the United States and Europe, and its growth rate becomes more and more significant every year (Alexander S. Konigsberg, 2008, p.38-67).

The high popularity and considerable prevalence of franchising are determined by the fact that it offers real opportunities for the development of goods sales networks both in domestic and foreign markets, attracting relatively little money, and most importantly for a small period of time.

## The dynamics of franchising development in Europe

The role of franchising in Europe is growing every year, as on the basis of the single European market member-countries have received significant benefits connected with the intensification of international production and promotion of small and large companies.

**Figure 1**  
**Growth rate of franchising in the EU member-countries in 2014**



Source: Author's elaboration based on the data of the European Franchise Federation 2015.

Analyzing the dynamics of the growth of franchises in Europe over the 2005 to 2014 period (see Figure 1), we see that in each country it is different and it is not surprising, because there are countries such as Great Britain, France, Italy, Belgium, for which franchising is not a new phenomenon, but fairly highly developed and widespread, whereas for example in Poland it has gained great popularity only in recent years. According to the Report on the franchise market in Poland, which was prepared by the company PROFIT system, the dynamics of the number of franchise outlets over the past 10 years has been continuously growing. In previous years the Polish franchise market was mainly represented by franchise systems belonging to catering, but now the development of concepts in the service field has accelerated, which significantly brings Poland to the highest European standards, which are characteristic of European markets (the Polish Franchise Organization, 2016).

The country's acquisition of the membership in the EU promotes the spread of franchising as a tool to increase the number of goods sales networks, as it is the opportunity for national firms to enter large and small foreign markets.

It is worth noting that the franchise European market stands out for its special features and is disposed to such trends as:

- the increase in franchise subsections within the network, that is an increasing number of franchisees are trying to open as many outlets of their franchisors as possible;
- the internationalization of European franchising is enhanced, it is promoted not only by transcending the country of origin by a certain franchise network, but also by the membership in the European Union;
- increased usage of new technologies;
- the establishment of franchise associations in each country of Europe.

It is exactly Franchise Associations which are one of the institutional factors ensuring the existence and activity of many franchise networks. As individual organizations Franchise Associations were founded in Austria (Austrian Franchise Association (ÖFV), 2016), Czech Republic (Czech Franchise Association (CAF), 2016), Belgium (Belgian Franchise Federation (BFF), 2016), Denmark (Danish Franchise Association (DFA), 2016), Finland (Finnish Franchising Association (FFA), 2016), France (French Franchise Federation (FFF), 2016), Germany (German Franchise Association (DFV), 2016), Greece (Greek Franchise Association (GFA), 2016), Italy (Italian Franchise Association (AIF), 2016), Sweden (Swedish Franchise Association (SFF), 2016), Switzerland (Swiss Franchise Association (SFV), 2016), Netherlands (Netherlands Franchise Association (NFV), 2016), Britain (British Franchise Association (BFA), 2016) and Poland (the Polish Franchise Organization (PFO), 2016). In Portugal, up to two organizations – Associação Portuguesa de Franchising and Associação Nacional de Franchising are engaged in the institutional provision of franchising, whereas in Norway there is no single institution, but its regulation is carried out by the National Trade and Service Business Association (National Trade and Service Business Association, 2015).

### **The experience of franchise activity in European countries for Ukraine**

Now we can say that there is a convergence of European markets within Ukraine de facto. This can be seen on the example of Poland. The presence of franchise companies with Polish origin in the Ukrainian market promotes the rapid spread of a franchise system of doing business. That is exactly the factor, which will allow Ukrainian enterprises to accumulate eventually the experience of operations in terms of franchise relations, as well as to create pre-conditions for broader development of a contracting system of internal franchising in Ukraine (Wynohradska 2004, p.207).

Franchising in Poland has emerged over the last 20 years, along with economic and political changes in the country. The first franchisor in Poland was Mr. Hamburger in 1991, and after two decades, the number of franchise outlets has exceeded 50,000, including intensively strengthened food industry – there are more than 20,000 stores operating on franchise conditions.

The Polish franchise market over the 2005 to 2012 period shows a continuous upward trend (see Table 1). According to the Report on the franchise market in Poland in 2013, the average investment into a franchise in 2012 amounted to 162.7 Zlotys (PLN). The widest choice of proven business ideas was offered in the price range from 21 to 50 thousand of Zlotys, which again confirms indisputable benefits of a franchise business strategy. Over the past five years, the number of franchise concepts represented in the country has increased by 111% – from 387 in 2007 to 820 in 2012, while the number of franchisees has increased by 112% from 22,450 to 47,750 outlets. This trend demonstrates the high quality of franchises and extremely rapid market development (Raport o rynku franczyzy w Polsce, 2015).

Today Poland demonstrates the high level of franchising among European countries. Polish franchises are mostly represented in the Czech Republic, Slovakia, Ukraine and Russia, and in the Polish market the brands of such countries as Italy, Germany, France, the USA, the UK and Spain have become successful (Magdalena Kinga Stawicka, 2009, p. 30-45).

After Poland's accession to the European Union the opportunities on its ability to develop its own enterprises by means of franchising are much larger. It is interesting that just Poland is a leader in the number of franchise brands among the countries of Central and Eastern European. Along with the accession to the EU Polish franchise networks have got broad opportunities to enter foreign markets and sell its products in the territory of the common market. According to the Report of PROFIT system, franchising is considered by Polish entrepreneurs as a secure business-idea which once again underlines the practical benefits of this business doing strategy and expansion of distribution networks.

### **The impact of the increase in the number of franchise outlets on Poland's GDP**

The interest in a franchise strategy in Poland is growing every year, as both franchisors and franchisees are interested in real income growth and the opportunities of savings formation and their subsequent use for opening companies abroad. It also affects the GDP and its structure change. Just for this purpose we will carry out the econometric research, which aims to clarify the impact of the increase in the number of franchise outlets on Poland's GDP.

We assume that there is a direct dependence between indicator changes in the GDP and an increase in franchise outlets, and protest this hypothesis. For this we use a linear regression equation as follows:

$$\text{GDP} = C(1) + C(2) * \text{FRANCHISING.}$$

To test this model the quarterly data over the 2005 to 2010 period are taken.

To carry out the research the data were entered into Excel then a work file in "Eviews" was created, where the data were imported.

Based on the method of the least squares we obtained the following data:

Dependent Variable: GDP  
 Method: Least Squares  
 Date: 04/26/12 Time: 10:55  
 Sample: 2005Q1 2010Q4  
 Included observations: 24  
 GDP=C(1)+C(2)\*FRANCHISING

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	2.433903	0.368188	6.610487	0.0000
C(2)	0.004525	5.297605	0.903873	0.3759
R-squared	0.035806	Mean dependent var		2.744417
Adjusted R-squared	-0.008021	S.D. dependent var		0.646317
S.E. of regression	0.648903	Akaike info criterion		2.052589
Sum squared resid	9.263663	Schwarz criterion		2.150761
Log likelihood	-22.63107	Hannan-Quinn criter.		2.078634
F-statistic	0.816986	Durbin-Watson stat		1.659230
Prob(F-statistic)	0.375854			

On the example of Poland it has emerged that the hypothesis of a direct dependence between the change of the number of franchise outlets and the GDP growth is correct.

We determine the correlation coefficient, which indicates a direct dependence between the increase in franchise outlets and the GDP growth.

The determination coefficient shows that the selected data explain regression by 35%. Under the statistics of Durbin-Watson it has been found that in this model there is no autocorrelation.

As a result of building up a regression model it has emerged that the increase in the number of franchise outlets by a thousand leads to the GDP growth by 0.004525 million of US dollars. This is a fairly high result of the impact research, as the GDP is affected not only by the increase in franchise outlets, but also by macroeconomic indicators, such as the change of physical output and prices.

### The comparative analysis of the franchise market in Poland and Ukraine

It is worth paying attention to the fact that in the context of integration into the European Union Poland's experience of developing franchise systems is very important for Ukraine because in this country over the 2005 to 2012 period there is a steady increase in franchise enterprises (Table 1). At the end of 2012 in Poland there were more than 51,000 franchise

outlets, which is a striking example that franchising takes an important place in the development of a business and economic sector in all (Ziółkowska Marta Joanna, 2010, p. 187). International franchising is important for the Ukrainian economy because it leads to business democratization, provides and also disseminates the best standards of living that are characteristic of countries with higher economic development. The usage of franchising as a mechanism to activate the innovative activity in Ukraine will increase the effectiveness of innovation introduction in the economy. A franchise form of business activity organization will enhance the efficiency of the Ukrainian economy, and increase the competitiveness of national products in the European market.

Comparing the dynamics of the number of franchise outlets in Ukraine and Poland, we can see that franchising is developing much more slowly in our country, despite the fact that over the last eight years in our country there has been the positive dynamics of the development of franchise networks, as of February 2013 the number of franchise outlets in Ukraine was 22,639, according to the journal MOPC. However, at the end of 2012 the number of franchise outlets in Poland exceeded Ukrainian by nearly thirty thousand. Analyzing the dynamics of the number of franchise outlets in Poland and Ukraine, we should pay attention to the fact that in 2008 the franchise outlets in Ukraine decreased and in Poland – increased, despite the global economic crisis, which indicates a stable position of franchising throughout the European market.

**Table 1**

**The dynamics of the number of franchise outlets in Poland and Ukraine over the 2005 to 2012 period**

Country/year	2005	2006	2007	2008	2009	2010	2011	2012
Poland	18 811	20 831	22 784	27 229	34 047	40 760	48 201	51 209
Ukraine	10 253	16 656	17 195	11 758	18 007	14 422	22 639	22 604

Source: Author's elaboration based on the data of Polish Franchise Organization, 2015 and Ukrainian Franchise Association.

As of 2012, there were 101 European franchisors operating in Ukraine, 45 – from the CIS, 25 – from the USA, 7 – Asian and 3– Australian brands. Despite the fact that on the way of foreign companies to the Ukrainian market, there are some obstacles that primarily concern the scanty information of Ukrainian entrepreneurs about the basic principles of doing business on franchise conditions, inadequate legal framework, lack of practice in testing business, instability and unpredictability of the Ukrainian economy, lack of necessary start-up capital and appropriate experience of implementing a franchising form of cooperation, a high degree of distrust of the franchise form of business activity in Ukraine there are about two dozen Polish franchise networks successfully operating and developing their sales system, including Reserved, Reporter, Top Secret, Home & You, Atlantic, RuckZuck and Wittchen.

One of the first and most successful trade franchise networks in Poland, which has entered the Ukrainian market and is still actively functioning, is TM Top Secret. The Polish company Top Secret Sp. z o.o. opened its first store in 2002, since then the network of brand shops has been gradually growing and not only in Poland but also abroad, particularly in the Czech Republic, Slovakia, Lithuania, Russia and Ukraine. As for the Ukrainian market, Top Secret was first presented in Kiev in 2006. This company is a vivid example of the fact that with the help of a franchise strategy of doing business a stable goods sales network can be established, because as of mid-2013 only Ukraine had 26 franchise outlets of TM Top Secret (the Ukrainian Franchise Association 2015).

Mostly franchising in Poland is presented in catering, retailing, motor and motorcycle sports, personal services and construction services.

**Table 2**  
**Polish franchise networks in Ukraine**

Segment/ industry	Brand	Start of franchising in Ukraine / city	Number of own outlets	Number of franchises
Trade / sports, health	USA SPORTS	Kiev	4	24
Trade / building	RuckZuck	2009, Lviv	0	6
Trade / women's clothing	Tiffy	Zhytomyr	0	3
Trade / women's clothing	Troll	Kiev	0	2
Trade / clothing for all	Reserved	Lviv	0	6
Trade / linen	Atlantic	Kiev	0	27
Trade / linen	Szame	2003, Lviv	5	7
Trade/ footwear	Badura	2009, Zhytomyr	0	1
Trade / clothing for all	Reporter	2004, Lviv	0	30
Trade / building	Home&You	Lviv	2	2
Trade / clothing for all	Top Secret	2006, Kiev	12	26
Trade / clothing for all	Wittchen	2010, Kiev	50	30
Retail	Perfect-marketing	Kiev region	0	400

Source: Author's elaboration based on the data of the Register of "Networks in Ukraine" 2015.

The franchising market in Ukraine is presented mainly by brands of national origin; however, European franchise networks occupy 24% of the market.

Among the most well-known European brands represented in the Ukrainian market there are the following ones: MANGO, Broadway, Reserved, Tom Tailor (Table 3).

**Table 3****Terms of the acquisition and use of European franchises offered for sale in Ukraine in 2012**

Name	Country of origin	Start of activities in Ukraine / year	Investment/ thousand USD
Grillmaster	Germany	2010	80-100
Tom Tailor	Germany	2000	50
BioQual	Portugal	2002	70-90
NBB NationalBusinessBrokers	Portugal	2010	190-200
ChipsAway	England	2006	35-40
Element Cosmetics Studio	Slovakia	2011	160-165
Mortimer English Club	Germany	2010	12-15
Attirance	Latvia	2007	20-25
Majorica	Spain	2010	30-45
POS Silver	Austria, France, Italy	2004	25-30
SPAR	Netherlands	2001	120-130
Dessange	France	2008	380-500
Kick Point Fun & football	Germany	2004	3-3,5
MANGO	Spaine	2000	26-32
Kenvelo	Czech Republic	2000	50-70
Reserved	Poland	2004	100
Broadway	Germany	2000	50-70

Source: Author's elaboration based on the data of the Ukrainian Franchise Association and Register of «Networks in Ukraine» 2015.

## Resumption

Analyzing the experience of the entry of retail franchise networks originating in the EU into the Ukrainian market, we can conclude that the future of Ukraine in the European market depends on its participation in all processes related to the internationalization and also establishment, attraction and transfer of advanced technologies and know-how. In the conditions of low innovation activity of our state it is important to use franchising, which acts as one of the forms of financing high-tech activities. Adopting the experience of European countries, Ukraine will have more chances to increase the competitiveness of the economy in all and take a favorable position in the international market. Moreover, franchising is the most democratic instrument of doing business, as developing its own franchise network the franchisor brings not only his own brand and production methods, but also high standards, which his goods correspond with to new markets and territories. Also it is worth noting that franchising is a very effective method of expanding sales networks in overseas markets since

it is an active and very common way of doing business that is going to Ukraine from the European Union.

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## Strategia wchodzenia sieci franchisingowych z UE na rynek Ukrainy

### Streszczenie

W artykule dokonano analizy podstawowych właściwości franchisingu w Europie. Zbadano mechanizm relacji franchisingowych między krajami członkowskimi UE a Ukrainą. Omówiono dynamikę wzrostu liczby europejskich sieci franchisingowych na rynku ukraińskim. Dokonano analizy doświadczenia z działalności polskich sieci franchisingowych dla Ukrainy. Uzasadniono skuteczność i podstawowe zalety strategii franchisingowej na rynku ukraińskim. Wyjaśniono wpływ zwiększenia liczby punktów franchisingowych na PKB Polski. Celem artykułu jest zbadanie właściwości franchisingowej strategii wchodzenia sieci europejskich na rynek ukraiński. Artykuł cechują praktyczne i społeczne implikacje w dziedzinie zwiększania wiedzy o możliwościach wykorzystania franchisingu na Ukrainie.

**Słowa kluczowe:** franchising, biznes europejski, międzynarodowe stosunki gospodarcze, rynek europejski.

**Kody JEL:** M20, F5, K29

## Стратегия вхождения франчайзинговых сетей из ЕС на рынок Украины

### Резюме

Проанализированы основные особенности франчайзингового бизнеса в Европе. Исследован механизм осуществления франчайзинговых отношений между странами-членами ЕС и Украиной. Рассмотрены темпы роста количества европейских франчайзинговых сетей на украинском рынке. Проанализирован опыт деятельности польских франчайзинговых сетей для Украины. Обоснованы действенность и основные преимущества франчайзинговой стратегии на украинском рынке. Выяснено влияние увеличения численности франчайзинговых точек на ВВП Польши. Цель статьи – исследовать особенности франчайзинговой стратегии вхождения европейских сетей на украинский рынок. Статья характеризуется практическими и социальными импликациями в области повышения знаний о возможностях использования франчайзинга в Украине.

**Ключевые слова:** франчайзинг, европейский бизнес, международные экономические отношения, европейский рынок.

**Коды JEL:** M20, F5, K29

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