

FRANCHISING AS A CREATION SYSTEM OF QUALITY BUSINESS IN RUSSIA

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Nowadays a lot of people have a wish to start business but often their opinions about that are poor. The topic is to present the information about the opportunity of beginning high-quality business with franchising. Franchising in Russia is developed less than in America and Europe. Western statistics says that 85 % of businesses which were created from scratch exists only one or two years, but the other 15 % are franchise businesses and it is long and stable deal.

This paper presents the overview of franchising. It depicts the types of franchises, their pros and cons and ways of Franchising as a mixed form of cooperation between large and small businesses or firms. It is correct to compare franchising with the family, where franchisors are parents companies they make the decisions for the franchisee - subsidiaries. The subsidiaries have little or no rights and have to conduct its business only in the direction which is prescribed by their franchisor. But in some cases franchisees have the right to make their own decisions if it is not contrary to the general policy of the head company. A place, period, and method of doing business are conducted by general company too. To navigate the franchising matters while buying a franchise one can based on facts and knowledge. One needs to understand that franchises are divided into three types:

1. Merchanting.
2. Working under the "other" trademark.
3. Using the knowledge and technology.

Often one can hear that the franchise is buying the right to use the trademark (brand) and then more brands are promoted better.

1. *MERCHANTING*

This is the most common form of franchising for small businesses. For example, the store «Adidas» or «Karen Millen» in the town. The essence of business is that one buy a certain brand of products and sell them in this store which will meet the requirements of the brand. The brand's name in this situation plays an important role but nevertheless a main role is the popularity of the products, affordable prices and promotional support of the franchisor. Companies with muted names often offer much more favorable conditions for the consumer. Therefore, while buying a franchise one needs to answer the question: "What is more important to you: an ambitions or income?" So, in this case it is possible to define "the pros" and "the cons".

PROS

Relatively low cost.

Franchisor (the seller's franchise) will receive the main income from the sale of goods to you, that is why the lump-sum payment (franchise value) will be low .

A small amount of investment.

For reselling foreign goods one can only need to equip the salesroom. But it is necessary to understand that the hardware store in accordance with the requirements of the brand will cost more than conventional equipment store.

CONS

Low profitability.

The purchase price for the goods will be quite high but the sale price surely will be limited.

Strict requirements.

You can get demands on volume of purchases (not less than X rub. per month) and range (e.g. necessarily buy unmarketable sizes). Franchisor (the seller of the franchise) is interested in their sales and will "squeeze" the maximum of you .

The crowd store is not guaranteed.

You should not rely on the rapid success of this business. The time of the purchase and resale is now in the past. Market is saturated with all sorts of goods and consumers can buy anything now. Think, when you were the last time in the store of clothes and saw a big queue? Did you remember a faces of bored sellers?

2. *WORKING UNDER THE "OTHER" TRADEMARKS*

Here is an example: You have a workshop for the production of bottled water. You buy from a franchise owner the right to produce water under its trademark. Then you can glue on your water his famous label and sell in your city.

PROS

Brand guarantees sales.

Advertised brand can significantly boost sales and interest in your products. This is the case when the brand name plays a major role in choosing a franchise.

CONS

Ready production is needed.

And this production should meet the specifications and standards of the franchisor. In the case of global brands, stringent requirements will be presented to the entire structure of the whole enterprise (for example, requiring the certification of ISO 9000) . This type of franchising is more typical for large not small businesses.

In fact it is a lie.

Quality of the product does not change from the label. An example is the production of beer in bottles under the loud Western names. Russian versions of beverages are desired to be better.

3. KNOWLEDGE AND TECHNOLOGY SHARING

According to experts it is the most promising type of franchising for small businesses in Russia. An example: One wants to open a café but does not understand anything in the restaurant business. It is possible to refer to the owner of the franchise and the owner will create thoroughly thought cafe and trains the head and the staff with all necessary things for successful business management. In this situation the brand name is relegated to the background.

PROS

High profitability.

The head of the café is the manufacturer of products not just a reseller.

CONS

Large amount of investment.

In comparison with the merchanting business investment here is significantly higher. For example the opening of a modern cafe or coffee will cost 6 million rubles; a small confectionery is about 3 million rubles. The production of goods is more profitable but requires more investment than resale.

Ways of franchising development in Russia.

Russia has a huge potential for the development of franchising. But for its implementation there are no adapted legislation. The initiative of changing law and regulations should come from above to the state itself.

Perhaps this is worth of talking about the need to include franchising program in supporting small and medium-sized businesses. Assistance from the state is important even if it is at the initial stage or in the form of various benefits. Franchise successfully applied in our country, and has great opportunities to develop and spread, it is necessary to support, such systems provide a simplified system of taxation and business training within franchise systems.

It is also necessary to create domestic competitive businesses that will create products and provide services that will be in high demands in the market. It is about creating our own brands that can compete with foreign business counterparts. It is necessary to outline that innovation business will be in demand and therefore there is the point of creating franchises – more profitable. A simple example: choice between «Subway» or «Siberian pancakes» in Tomsk.

Great role model can be regarded as a network of Irish pubs «Hurut's» headquartered in Irkutsk. In a short period of time since the creation of the network in 2012, the number of pubs «Hurut's» risen to 40, which are located in 16 cities of Russia. An active interest to this brand is shown in other countries too - Kazakhstan, Ukraine, Belarus, Montenegro, Thailand.

In conclusion one can say that this literary overview of franchising has important meaning in

studying quality management and just for business development. Because, almost everyone wants to start own business and this information will be helpful for success in management of company and allow someone to avoid typical mistakes.

The presented information will be available for further studying of this issue.

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