

THE ROLE OF FRANCHISING IN SMALL BUSINESS DEVELOPMENT

ALISA DUDKINA, NATALLIA BELARUSAVA

Polotsk State University, Belarus

This article examines the current state and development of franchising. The historical stages of the term «franchising», the factors constraining the development of franchising in the Republic of Belarus. The use of franchising is defined as a means to enhance business development in the Republic of Belarus.

The Republic of Belarus in 2017 has improved its position in the ranking of Doing Business, taking 37 place and, currently, belongs to the countries convenient for doing business. The improvement of the world rating allows to improve the quality of life of the population, to increase the availability of jobs, to reduce unemployment, to increase the competitiveness of goods and services. Small and medium-sized businesses occupy a special place in the business environment. The contribution of small and medium-sized businesses in the GDP of the Republic for 2017 amounted to 24.7%, including the share of small business was 14.9 %, medium – 6.7 %, individual entrepreneurship – 3.1 %.

The country approved the Strategy of development of small and medium-sized businesses "Belarus – a country of successful entrepreneurship" for the period up to 2030. As a result of the implementation of the Strategy, it is planned to increase the share of small and medium-sized businesses in the total gross value added by 2030 to 50 %.

Despite the great work done by the government of the Republic of Belarus to liberalize the economy, small and medium-sized businesses face many problems and difficulties in the implementation of projects: the difficulty in obtaining loans, imperfect legislation, lack of financial resources, untrained personnel, lack of equipment capable of producing competitive products and services, and many others.

Compared to the larger ones, small businesses are much less inertia (due to less bureaucratization and the need to respond flexibly to the changing preferences of their target audience). On the other hand, small business is in much less favorable conditions compared to medium and especially large businesses:

- less financial transparency, insufficient assets and relatively low turnover make it difficult for them to access Bank financing (while the entrepreneur's own resources may not be sufficient for development);
- a small volume of purchases causes higher purchase prices and less favorable payment terms, which leads to lower profitability and the need to set higher selling prices for buyers;
- low profitability makes it impossible to rent convenient retail space in popular locations with a large flow of customers, and the small businesses are forced to trade in premises that are not always suitable for trading activities, and also located in places with a small flow of buyers. This, in turn, leads to an even greater reduction in sales;
- it is quite difficult for a small enterprise to form a competitive advantage that is obvious to customers and, as a result, to provide yourself with a loyal customer audience;
- insufficient managerial experience of aspiring entrepreneurs combined with their limited resources, not allowing to attract qualified staff, leads to low survival rate;
- lack of own loyal customer audience;
- the complexity of creating and retaining meaningful for the target audience of competitive advantages (in particular, by conducting innovation activities).

In these circumstances, small businesses have to look for non-traditional tools to continue to operate successfully in the market: both based on a variety of forms of inter-firm cooperation, and on various methods of cost reduction (for example, the use of e-Commerce).

In our opinion, the use of franchising in small and medium-sized businesses will help to improve the mechanism of small business development. Franchising is developing most favorably in the service sector. And the lion's share in the sphere of small and medium business is accounted for wholesale and retail trade, repair of motor vehicles, household services (37% of the total number of subjects). This tool does not claim to be universal, since it is not suitable for everyone, but its use in a number of situations can significantly simplify the creation and operation of a small enterprise.

In its historical development franchising has its roots in the distant middle ages. In the nineteenth century begin to develop relationships that most coincide with the current model of franchising. This partnership was

called "Connected homes". On the commercial level franchise came in the middle of the nineteenth century in the United States. The founder of the world-famous company "Singer Sewing machine company" Isaac Singer became the founder of modern franchising. Beginning in 1851, Singer entered into a written contract with distributors of the goods to transfer the franchise, the contract transferred the right to sell and repair sewing machines in a certain territory of the United States.

In the 1920s, standard commodity franchising began to develop in the United States. According to the principle of franchising, large wholesale suppliers began to build their relationships with the owners of retail stores. After the crisis in the us economy in 1930, franchising began to develop oil refining companies. So there were the first network gas stations owned by independent franchisees. In 1955 ray Kroc founded McDonald's Systems, Inc., which is the ancestor of franchising business format (Business format Franchisings), that is, franchising in its modern form, when together with the franchise passed the whole system of doing business.

In 1972 began its work, the European Federation of Franchising (European Franchise Federation – EFF). Membership in the organization are franchising associations in Europe, as well as other persons related to franchising.

This organization has developed a code of Ethics. It was developed by the European Franchising Federation with its members - franchising associations from Austria, Belgium, Denmark, Germany, France, Italy, the Netherlands, Portugal and the UK, in cooperation with the Commission of the European Community.

The current European code of ethics for Franchising was adopted in 1990. This is a kind of "Constitution" of franchising, on the basis of which is built all the rest of the regulation of franchising relations in each individual European country.

In the end, there is a General perception about the franchise and formed the special rules of this "business" [2].

Franchising is an agreement between economic entities, according to which one party (franchisor) provides for a fee the right to conduct business to the other party (franchisee). In other words, franchising-a way of organizing business relations between independent companies and / or individuals, as well as a form of small business, in which one of the parties (the franchisee) receives from the other (the franchisor) official permission to use the service mark, corporate identity, business reputation, know-how and the finished business model for a fee (royalties, lump sum).

Franchising systems can be structured according to many criteria.

The most popular classification:

- according to the product, which is implemented through the franchise system (type of activity);
- according to the know-how that is transferred;
- according to how the system is organized.

According to the type of activity franchising is:

- trading;
- service;
- production;
- mixed.

According to the franchisor's know-how:

- franchising of product distribution;
- franchising is the business format.

According to the system organization:

- direct franchising;
- development of territories;
- master franchising.

In the commercial franchising, franchisee has the right to sell the goods of the franchisor and use his method of sales. This is accompanied by the fact that the franchisee uses the franchisor's brand for the name of the store and enjoys the support of the franchisor in the design of the outlet, selection of assortment, training of personnel, customer service, merchandising and marketing.

In service franchising, the franchisor gives the franchisee the right to use its know-how in the form of recipes and procedures for the provision of a certain type of service. The franchisee draws up his point of sale with the franchisor's trademark, using its support in the design of the point, training of personnel and in the methodology of customer service.

In the production franchising, transferred know-how in the form of production technology and technical experience of the franchisor.

Economics

Mixed franchising is based on a combination of the main types of franchising: trade, service and production.

When franchising the distribution of the product, the franchisee has the right to sell an assortment of goods or provide a list of services under the franchisor's trademark.

When franchising a business format, the franchisor transfers know-how in the form of a full concept of economic activity.

Direct franchising is the simplest and most common method of network development. The contract is concluded directly between the franchisor and the franchisee for the opening of one franchise point.

In the framework of the development of territories, the developer area (area developer) gets the right to open franchised outlets within a defined territory, using sub-franchisees. According to the contract, the developer of the territory usually has to create a certain number of franchising points for a certain period of time in a certain territory.

Nowadays, social franchising is actively developing. Social franchising is a form of franchising aimed at mitigating or solving social problems rather than achieving commercial goals [3].

Why franchising will help small and medium-sized businesses to improve their efficiency? This postulate follows from the advantages that franchising gives, because any franchise system is based solely on a successful business. Despite the fact that the population of Belarus is actively involved in various business structures, the list of which is growing, there is still a part of the population is not very active in terms of risk and entrepreneurship. So franchising provides an opportunity to attract a wide range of people who do not dare to engage in "free" business without support and training. The basis of potential franchisees can be novice businessmen and other categories of persons who want and are able to engage in entrepreneurial activity "under the leadership".

As noted above, the most popular and effective franchising was in the United States, the country of its ancestor and European countries. In the Russian Federation and the CIS franchising also received its development, but not so large-scale. However, within the EAEU, the role of franchising can get its rapid development. Franchising, as a type of business, gets its greatest development in those countries where the share of private organizations prevails. This problem did not allow franchising to develop actively in our country. At the same time, 800 outlets are already working on franchises in Belarus. In mid-2018, there were about 80 companies in the country that provide a franchise and develop their networks (in 2013 there were only 4 such companies). The leadership is occupied by companies-manufacturers of confectionery products ("Красный пиццвик", "Коммунарка", "Красный мозырянин", "Кристалл"). The production of clothes, shoes, sale of oil products to the population, agricultural products, engineering and many others can become promising segments for the enter of Belarusian franchises to international markets in addition to food products. It is meanwhile curious that Belarusian franchises are more in demand in the regions, international franchises are in demand in Minsk and regional centers.

Thus, it should be noted that there is a great interest and potential for the development of franchising among small and medium-sized businesses in Belarus. For its widespread implementation, a number of organizational and legislative changes, large-scale information work in the country and the development of international cooperation, which will unite the forces of domestic and foreign business, are required.

REFERENCES

1. Бахарев, В. Франчайзинг как инструмент развития малого предпринимательства / В. Бахарев // Современная наука: Актуальные проблемы теории и практики. – 2013. – № 12. – С. 49–52.
2. История франчайзинга. С чего всё начиналось [Электронный ресурс] // Портал о франчайзинге в России TopFranchise.ru. – Режим доступа: <https://topfranchise.ru/stati/istoriya-franchayzinga-s-chego-vsye-nachinalos/>. – Дата доступа: 29.01.2019.
3. Виды франчайзинга [Электронный ресурс] // Портал идей для бизнеса FranchisingInfo.ru. – Режим доступа: <https://franchisinginfo.ru/franchayzing/4/vidy-franchayzinga/>. – Дата доступа: 22.01.2019.