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## ABSTRACT

In this work, the unique information collected during the interview with people, which have a certain experience in the sphere of franchising is used. The interview has conducted about business by persons from the numerous organizations for understanding the effectiveness of the formation of this branch of business and a possibility of its improvement. According to a research, it is possible to tell that a lot of information about the company and its product and the analysis of a segment for a franchise influences efficiency very strongly. Moreover, a possibility of receiving the help from the state which includes parliament, akimats and also specialized funds such as "Damu", will considerably increase the interest for this type of formation of business model.

## **АҢДАТПА**

Бұл жұмыс франчайзинг саласында тәжірибесі бар адамдармен сұхбат кезінде жиналған бірегей ақпаратты пайдаланады. Әңгімелесу бизнестің бұл саласын және оны жетілдірудің қаншалықты тиімді екенін түсіну үшін көптеген ұйымдардан іскер адамдармен жүргізілді. Зерттеуге сәйкес компания мен оның өнімі туралы көптеген ақпарат, сондай-ақ франчайзинг сегментін талдау тиімділігіне айтарлықтай әсер етеді деп айтуға болады. Тағы бір маңызды тұжырымға келер болсақ, мемлекет тарапынан парламентке, әкімдіктерге, сондай-ақ «Даму» сияқты мамандандырылған қорларға көмек алу мүмкіндіктері өз бизнесін қалыптастырудың осы түріне қызығушылықты айтарлықтай арттырады

## **АННОТАЦИЯ**

В данной работе используется уникальная информация, собранная в ходе интервью с людьми, у которых есть определенный опыт в сфере франчайзинга. Интервью было проведено с бизнес персонами из многочисленных организаций для понимания того, насколько эффективна эта ветка формирования бизнеса и возможности ее улучшения. По данным исследования можно сказать, что большая информация о компании и ее продукте, а также анализ сегмента для франшизы очень сильно влияет на эффективность. Также важным выводом является то, что, возможность получения помощи от государства, что включает себя парламент, акиматы, а также специализированные фонды такие как «Даму», значительно повышает интерес к этому виду формирования собственного бизнеса.

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## LIST OF ABBREVIATIONS

NGO – Non-Governmental Organizations

JSC– Joint-Stock Company

NCE – National Chamber of Entrepreneurs

FTC – Fair Trade Comission

## INTRODUCTION

**Relevance** research topic due to the fact that, under current conditions, franchising is one of the main ways of organizing effective business because it provides the entrepreneur the opportunity to become the owner of the already well-known brand with a long history and formed the target audience.

Franchising - one of the ways of doing business, successfully operating in the global market. He is a combination of small and medium-sized (large) business. This alliance implies an obligation and the impact energy of an individual entrepreneur, and the resources, experience, great company. Any type of business can turn into a franchise. The International Franchise Association identifies 70 sectors of the economy, which can be used franchise methods.

World practice has proved that the franchise - one of the most effective ways of business development for companies already achieved success and want to develop their success further. On the other hand the franchise - this is the best opportunity to organize their own business to secure the small entrepreneur, novice businessman, even for a man never to do business. In many developed countries, franchising is given special attention and support from the legislative and executive authorities. After the opening of franchised businesses, along with the creation of new jobs means the further legalization of entrepreneurial activity, improving tax collection. Any franchisor in accordance with its contractual interests, closely monitors the franchisee for financial transparency of operations and the reliability of his statements.

Application and development of franchising in the region could help to promote the innovation development, introduction of new business technologies, standards, business organization and enhance the business culture in these regions. That is why the study of the features of franchising as a business system, the concept of its role in the economic process is important for the Republic of Kazakhstan and determines the relevance of the work. Integration into the international community and the increased competition on the internal and external markets, increase the relevance of the use of

vertical integration and franchising technologies. Franchising - it's not just buying or selling a franchise, it is a whole range of challenging activities, which will be discussed in this paper.

When properly selected franchise model, entrepreneur frees itself from a number of problems faced by every aspiring business owner. These issues include the costs of advertising, search providers and intermediaries, selection of corporate strategy, setting the CE mission and goals, as well as much more. The main objective of a business organization, is the problem of choosing a promising business model, which is solved by means of a franchise, the franchisee is already offering optimal ready concept.

In order to properly make investment and get the desired profit, you should carefully study the market and the overall economy. All these tasks are successfully solved with the help of franchising as evaluation of the effectiveness already functioning enterprise carried much easier. The entrepreneur can only choose the most promising in his opinion the industry in which he would like to have a business. Factors directly influencing the choice of the franchise, in addition to the preferences of the entrepreneur, of course, are its financial possibilities, because businesses operating in different sectors of the economy, has a different value and cost, causing different amounts of initial capital.

As the main problem of franchising as a form of business organization in Kazakhstan, it is necessary to allocate legislative weaknesses. Franchising, as a concept, until recently, existed on the territory of the Republic of Kazakhstan, and called franchise. In other words, franchising as a way of relationships between entrepreneurs, has appeared in Kazakhstan not so long ago, from which derives the problem of imperfection of its regulation. In addition to the novelty of the concept, not the least is the fact that the founders of franchise relations are entrepreneurs from the United States, respectively, there is this kind of business relations developed well. This implies a different problem: as the major franchisors (the owners of the rights to the franchise) are the countries of the West and the US in particular,

It should be avenged, that our country is one of the leaders in terms of franchising development in EAEC countries. However, despite this, there is a backlog but the total number of companies from developed countries. One of the features of franchising in Kazakhstan can be considered as a special territorial distribution companies operating under franchise. For this reason, the bulk of the distribution franchises are concentrated in Almaty and Astana, but it is worth noting that their leading position decreases with each passing year. Also, an increase in the number of regions is observed, in which registered firms involved in franchising relationships. This trend is certainly positive, because it is through the development of our regions of the country is its overall enrichment. Today even relatively small towns offer 4-5 of their own franchises. Such regional development was made possible by the support of local entrepreneurs. The Republic of Kazakhstan has created favorable conditions for the expansion of geography of business, since it is possible to disperse over a vast territory a network of franchised businesses, which, in turn, will be engaged in maintenance of specific segments of the market of the region in which they are located. Because franchisors franchising is a tool to distribute their products outside the region, as well as a great way to develop their own business, the economies of scale will provide an excellent opportunity to achieve maximum coverage of any selected region and its neighboring areas. The Republic of Kazakhstan has created favorable conditions for the expansion of geography of business, since it is possible to disperse over a vast territory a network of franchised business, which, in turn, will be engaged in maintenance of specific segments of the market of the region in which they are located. Because franchisors franchising is a tool to distribute their products outside the region, as well as a great way to develop their own business, the economies of scale will provide an excellent opportunity to achieve maximum coverage of any selected region and its neighboring areas. The Republic of Kazakhstan has created favorable conditions for the expansion of geography of business, since it is possible to disperse over a vast territory a network of franchised businesses, which, in turn, will be engaged in maintenance of specific segments of the market of the region in which they are

located. Because franchisors franchising is a tool to distribute their products outside the region, as well as a great way to develop their own business. The economies of scale will provide an excellent opportunity to achieve maximum coverage of any selected region and its neighboring areas will be engaged in maintenance of specific segments of the market of the region in which they are located. The urgency of a problem and the lack of organization of franchise relations determined the choice of the theme, the aims and objectives of this study.

**Research aim:** to analyze how the government can support the development of franchising business in Kazakhstan.

**Theoretical and methodological basis of research.** Theoretical and methodological basis of research was fundamental scientific works of domestic and foreign scholars on franchising and business organizations with the help of a franchise.

**Research methods.** The main methods of study is based on making qualitative analysis by interviewing people who are already used or are going to use franchising method of conducting the business.

## **1 Literature Review**

The main purpose of entrepreneurs, who want to establish their businesses, is to obtain the greatest possible profit volume, which can be achieved through the production of high quality goods and services, rationally formed the organizational structure, qualified personnel, and others. However, the main aspect of attracting more customers and, accordingly, and income is brand awareness. In order to achieve good results and save them requires the implementation of investments in the activities of the organization, the right education, experience accumulated in this field, allowing management to make informed decisions to reduce various types of risks that arise in the course of organizing the operation. However, often the businessmen who are just starting their business and have no experience in doing business,

In order to protect themselves from significant losses, budding entrepreneurs should pay attention to the possibility of acquiring a franchise, as the possibility of losses but the results of the activities of the firms established under franchising significantly lower than that of the individual newly formed enterprises [1, p. 968].

Franchising - a popular form of business activities and a systematic replication of successful models of commercial and non-profit enterprises.

United in diversity - so you can characterize the franchise: a single brand, products and services on different continents and the continents.

The world is moving towards globalization, and its main instrument is mega brendy franchise. Franchising - a business of the future. According to experts in the XXI century, more than 50% of global business will operate under a franchise system, the second half will be its supplier. Already today, one of the indicators of the level of development of the national economy is the state of the franchise in the country. Therefore, many countries pay great attention to the development of franchising by the adoption of special laws governing these relations, implement the program of development and support, providing special benefits to market participants.

Franchising is an effective tool in the development of private entrepreneurship,

increasing employment, the solution of social problems, increase the transparency of business and increase the tax base. Therefore, both the State and the non-governmental level, the popularization of the franchise as the ideal form of development is manifested in various initiatives.

The definition can be found in any classical economic glossary. At the same time it is possible to note the difference of legal interpretations in different countries. And if the international semantic definition of a franchise based on the determination of the IAF (International Franchise Association), is universal for international business, yet you should always pay attention to the official terminology in each country. It is very important for an adequate regulatory framework and proper drafting of legal contracts of franchise relations.

In Kazakhstan, the law on franchising adopted June 24, 2002. We are talking about the Law of the Republic of Kazakhstan "On the complex entrepreneurial license (franchising)," where the term "franchising" is given enough adequate legal definition - complex entrepreneurial license.

According to the Law of franchise definition reads as follows:

"Integrated enterprise license / franchise - it is entrepreneurial activity, in which the right holder of the exclusive rights of the complex provides its (complex) for use on a reimbursable basis to another person". [2]

Reimbursable basis - is, as a rule, royalties and lump-sum payment, the definitions of which are not spelled out clearly in the law, but still widely used in the practice of franchising fees. More detailed definitions can be found in the glossary at the end of the book.

The franchisor, who is also an integrated licensor according to the law - a party to the contract of complex entrepreneurial license, the legal owner of the complex of exclusive rights (license system), and provides a comprehensive licensee to use fee-based system of exclusive rights.

Accordingly, the franchisee is an integrated licensee - party to a contract of complex entrepreneurial license, legal owner complex of exclusive rights of the

licensor, using this complex business environment.

The complex of exclusive rights (license complex) - the right to a number of intellectual property (trade marks, trade names, service marks, patents, undisclosed information, including trade secrets (know-how)). This determination may be close to the international franchise term. However, in Kazakhstan's business lexicon longer practiced the use of advanced international franchise term.

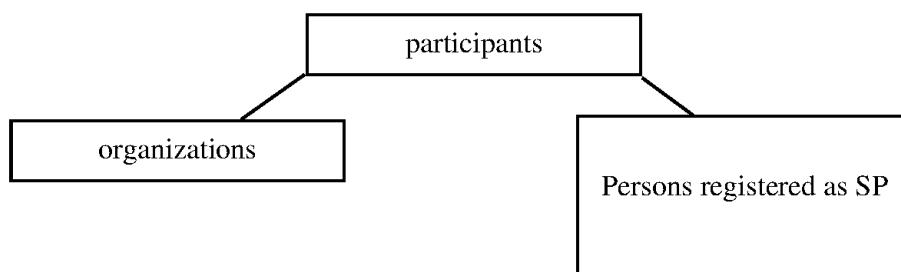
With the evolution of business and the economy in general, changes and types of business relationships, including franchising. New forms of franchised businesses. But the main classical types, which are built on the foundation of modern franchising model remains unchanged - it distributive (trade) franchise, (which is also called traditional) and franchise business format (business or franchising).

In foreign countries, the term franchise is applied differently. For example, the Republic of Moldova and the United Kingdom use the term "franchise", and countries such as Belgium, France and Switzerland use in his speech "commercial concession" [3, p.18].

As participants of this relationship are the person shown in Figure 1.

A requirement of authenticity franchise agreement is, first, the conclusion of it in writing, and secondly, the transfer of the right holder under this contract belong to him special rights.

The word "franchise" has gone from the English word "the franchising", whose values are "right", "privilege". Domestic interpretation of this concept sounds like "way of organizing business relationships between independent companies and / or individuals, in which one party receives from the other official permission to use the service mark, corporate identity and business reputation, know-how and finished business -model for a fee - royalties "[5, p. 15].



## Figure 1 - Participants of commercial concession

Note - the author of the source is made [4]

In the literature, there are also other definitions of "franchising" and "franchise". For example, Ksenidi I.D. in his study he offers the following definitions of terms considered:

- Franchising - a type of relations between subjects of the market, in which one of the parties will give the second party relationships for a fee, a particular type of business, resorting to ready business model of reference;

- franchise is subject to a franchise agreement, goods complex needed to establish and conduct business [6, p.98]

The next author, Guchev I.A., determines its franchising as a form of interaction between market actors, under which one party grants to the other side of the agreed fee special right to use its trademark and / or name, and in addition, she passed the business and technology other commercial information for the production and sale of goods or services, following the defined rules [7, p. 23].

Tolkachenko G.L. and A.V Fedorov - authors who in their common labor agreements meant by franchising system in which the owner of the trade mark, the trade mark or copyright character gives the right to use another company for their development in compliance with specified requirements [8, p. 14].

The definition T.V. Zvanovoy and Krikunova E.A. determine that the owners of trademarks, brands or copyright called "franchisers", and firms that provide the right to use designs provided by them called "franchisees" [9, p. 32].

Among other things, it is possible to note the work Kovrova O.G. and Kiryushin A.N., through which we can examine the proposed interpretation of the concept of "franchising". By franchising the data we mean a mixture of models of large and small businesses, in which large firms (so-called "parent", franchisors) contract with small organizations ( "daughter" companies, entrepreneurs, ie the "franchisee") for the right

to work under the name of the franchisor [10, p. 124].

Yevdokimov I.S. under a franchise involves complex benefits, provides businesses and individuals the right to use the name, authoring, business model, the franchisor [11, p. 21].

If complete and systematize the definition given above, we obtain the optimal, in our view, the interpretation of the term "franchising". Franchising - a way of organizing and implementing business activities, meant by the interaction of the system prescribed in the contract of franchise and other related documents. Franchise, as a rule, called the system of exclusive rights granted under the agreement.

Despite the dominance of American brands in the world, a modern franchise increasingly internationalized. In its annual list of the biggest brands of the franchise sector, the share of European and Asian companies. Today, the annual global franchising turnover exceeds \$ 2.3 trillion per year on a global sector employed over 29,000 franchise networks and about 2.8 million franchised outlets, more than 33 million people are employed in the franchise sector (data of the Central Asian CAFLA Agency for 2015 ). Ratio franchising in the business world is 17% [12].

The United States is no longer the undisputed leader in the world in the number of franchise networks, this place is claimed by China with over 3,000 franchise systems in the country. US, slightly behind China, is on the second position of the list of countries - the leaders of the franchise, and the third place belongs to Japan.

Ten countries of franchise leaders are presented in Table 1. Of course, the data can only be approximate, since there is absolutely accurate statistical framework for franchising in the world. Expert evaluations vary, but in this table CAFLA experts from international agencies have relied on various sources and take into account the various factors of influence for the period 2007-2015 year.

Table 1 - Ten countries franchising leaders

| Countries                                     | The number of franchise countries | Amount the population                       |
|-----------------------------------------------|-----------------------------------|---------------------------------------------|
| 1. China                                      | 3200                              | 1343500000                                  |
| 2. United States                              | 2900                              | 311028000                                   |
| 3. Japan                                      | 2400                              | 127380000                                   |
| 4. a. India<br>b. Canada<br>from. Philippines | 1700                              | a. 1195992000<br>b. 34471000<br>c. 92226600 |
| 5. Germany                                    | 1000-1500                         | 81000000                                    |
| 6. France                                     | 1400                              | 65447374                                    |
| 7. Brazil                                     | 1400                              | 194486000                                   |
| 8. United Kingdom                             | 1370                              | 62041708                                    |
| 9. Australia                                  | 1300                              | 22650000                                    |
| Note - compiled by the author source [12]     |                                   |                                             |

The number of networks is not the main indicator of the impact of franchising in the country's economy. For a more precise definition of franchising impact on the economic life of a country must be taken into account and other statistics: for example, such as the number of franchised outlets, the number of employed people in the sector, the average annual turnover, the overall trend of the sector, etc.

Also, it is very difficult to make a detailed overview of the countries within the same chapter. Analysis of only one segment of a country such as France, could take an enormous amount of information. And yet, try to make an overview of the markets, which are the leaders of the world of franchising and the main trade partners of Kazakhstan.

USA.

If you rely on indicators such as the degree of influence of the franchise on the

economy, the leader in this indicator is the United States. Despite the fact that the number of US networks is slightly inferior to China, you need to take into account the fact that the franchise statistics in different countries also includes regional franchisee of American brands, which share in the different countries can reach 70% or higher of the total number of franchise companies. In addition, an annual turnover of one American network, for example such as Coca-Cola, can cost a separate budget. The annual turnover of the franchise in the United States is more than 1.5 trillion US dollars, and it is - half of the world turnover, if not most of it.

The number of jobs created by the franchise sector companies is 9 million people, plus the 18 million jobs created by the adjacent sectors of the industry (FranData data for 2007), which is approximately equal to 13.7 percent of total employment in the private sector across the country. To evaluate this figure can be said that in the US franchising employs the same number of people as employed in the production of computers, automobiles, trucks, airplanes, spare parts for communications, primary metals, wood products and tools. Moreover, these figures are very modest, the multiplier effect can be much higher.

The most active franchise distributed in cities such as New York, Los Angeles, Chicago, Washington, Philadelphia. States where franchising is most developed: California, Texas, Florida, Nevada, Arizona, Mississippi and others.

American origin is the company Sabuey (Subway), with a record number of points of sale around the world (27899 restaurants in 87 countries). Sabuey for several consecutive years ranked first in the ranking of franchises by Entrepreneur magazine popular (Entrepreneur). Also, the American-born is classic franchise - the company McDonald's franchise which is a visual aid for the study of fast-food sector.

Interestingly, the standard of living in different countries are sometimes determined by the so-called Big Mac index (The Big Mac Index). This is a simple but very useful tool to determine the level of purchasing power of the population of a given country, based on the difference between the cost of a Big Mac sandwich.

The share of the franchise in the retail market is approaching 50%. The number

of franchisees reaches 965,000 (data IFA Educational Foundation by PriceWaterhouseCoopers). Only since 2003 it has added more than 1,000 new franchising concepts.

Franchising covers more than 80 lines of business with different levels of investment. Sector leading franchise is fast food, presented by more than 500 concepts. Ratio fast food sector is about 20%, and retail services and constitute approximately 11% each. The rest of the sector occupied by the ethnic cuisine restaurants, real estate agencies, etc. Dry cleaning there are new categories of franchise concepts in the field of care for the elderly, computer services, preschool education, etc.

All regions of the country is almost entirely covered by points franchise networks, and companies seeking to enter new territory in other countries. The United States has the largest consumer market in the world, almost 30% of global consumption belongs to the United States, and the share of the franchise in this market is very high.

Most of franchise development history is linked with the United States, as Most franchise Superbrands (Coca-Cola, Baskin Robbins, McDonald's, etc.) are of American origin.

China.

China called the so-called "King of the markets", one of the largest markets in the world with a population of about 1.5 billion people, and if the company considers itself international, it is presented, or in China, or going back in the near future.

China alone can sometimes provide the same volume of sales as all the combined markets of other countries. China is the second largest stock market in Asia after Japan, and the second in terms of attracting investment in the world after the United States. Every year the country attracted more than 50 billion dollars of foreign investment.

According to recent figures, the country has more than 3,000 franchise networks and about 270 000 franchisees across the country. Given the potential of the market and the rapid growth of the economy, we can say that China's franchise Statistics

changing most rapidly. For example, only for the period of 2013 and 2016, the first year the number of networks grew by 15%, while the number of franchisees has increased by 30% [12].

The number of employed workers in the sector amounts to about 4 million people. The average number of franchisees in the same system has grown from 57 to 63. It should be noted that compared to the US franchise systems, where one network can total thousands of franchisees in China, this figure is much more modest. Therefore, despite the large number of franchise networks, the level of influence of the franchise on the economy is much smaller than in the US.

International companies are actively expanding its presence in China, but a large share of the sector make it American brands. US company CFS (KFC) is a network of 1,000 points, McDonald's - 560, network Pizza Hut and Starbucks operate 70 franchised points each. Sector leader is the company Kodak (China stands for "REX photo express» trademark) with 9,200 points of sale across the country.

Olympic Games are traditionally great advertising platform for international companies. Beijing 2008 was a significant event for the franchise star, it's multi-billion dollar potential audience. Big brands do not miss an event of this magnitude. For example, McDonald's has sponsored Olympic Games 2008, as well as its Speaker (spokesman) invited the player Houston Rockets (Houston Rockets) - Yao Ming (Yao Ming).

Major foreign companies have emerged in China in the late 80-ies of the last century, when China opened its markets to foreign companies. International networks do not use the franchising system for the expansion of the country, preferring to brand management points without the transfer of rights to local entrepreneurs. This was due to a number of factors hindering the development of franchising in the country:

- a high level of administrative barriers established by foreign companies;
- the lack of legal security of the franchise;
- low levels of intellectual property protection;
- insufficient business mentality of local entrepreneurs.

Traditionally, the Chinese authorities are trying as much as possible to protect the rights of local entrepreneurs to create joint ventures, and build relationships with foreign companies on the basis of the maximum interests of the country. This is reflected in the policy of compulsory participation of public or private Chinese companies in projects with foreign participation. One of the main difficulties for foreign companies in China is that most of the buildings and land owned by the state, and only the public authorities decide to tenancy issues, buildings and land by private entrepreneurs.

The first branded restaurant company Sabuey (Subway Sandwich Shop) opened in Beijing in 1995, thanks to the efforts of the joint venture Sabuey and Chinese state-owned company. But the franchise Sabuey program launched in China two years later.

Company "Kodak" and Bank of China set up a joint venture in the early '90s, which gave the opportunity to thousands of local businesses to open stores under the "REX photo express» trademark. The state contributed to increasing the number of outlets in the country Kodak because the main owners of the company's stores were Chinese businessmen. Thus, the network has created the maximum number of jobs. As a general rule, the participation of local entrepreneurs in projects with foreign investment - the main foreign companies' entry conditions of the country market. China's first law on franchising, entitled "Regulation of Commercial Franchise Business» (Regulation on Commercial Franchise Business) was adopted in 1997. But with China's entry into the WTO in 2001, the Act itself had to improve.

Accession to the WTO obliged to remove all barriers to foreign investors, which contributed to an increase in the share of foreign companies in the market, and, including franchised brands.

China has allowed foreign companies to open their own offices without creating joint ventures with local partners. However, behind the scenes the authorities are constantly trying to force foreign companies to partnership with local businesses.

Therefore, foreign franchisors reluctant to pass on franchise development model, for example, McDonald's has only recently started selling franchises Chinese

entrepreneurs, although the company's first point appeared in China in 1989, and the FSC launched a franchising program only in 2001, 14 years after the date the opening of its first restaurant. However, in the Chinese market, foreign brands dominate the franchise, and not only American, but also brands from Japan, Korea, India and Australia.

The number of local brands is increasing, as the majority of Chinese companies successfully implements the franchise system. Noteworthy is a very popular brand name - "Meng» (Mengniu), of the same name brand manufacturer of dairy products of Inner Mongolia.

Actively develop the Chinese computer company. Brands Lenovo and Donghay became leaders of the national IT market and is actively expanding its geographic presence in neighboring countries. You can also note the manufacturers of household appliances and Chonghong Conca, the latter is also popular in Kazakhstan.

The most interesting segment for franchisors is traditionally fast food. In a country where the development of the national cuisine, foreign points of fast food is necessary to introduce additional Chinese dishes in the main menu to attract adherents of traditional Chinese cuisine. For example, in all of its 1,000 restaurants KFS entered in the menu are traditional Chinese dishes such as duck soup and Peking duck. Famous Peking duck prepared according to original recipe KFS.

In China, the spread of fast food with the national colors. The basis of most dishes is the traditional Chinese noodles, recipes which can reach hundreds of options.

The company "Malan» (Malan) - a famous national network of so-called "Chinese noodle restaurant." In the sector of the national fast food Malan is the leader in the number of franchised outlets and actively catching up with their foreign competitors in the face of McDonald's and KFS. Restaurant Malan managed to win the hearts of consumers quickly enough due to the skilful combination of traditional Chinese cuisine and the modern fast-food format. Malan - a fast-growing network not only in China but around the world. His first restaurant outside of the country, the company opened in Los Angeles in 1999, thereby becoming an international brand.

Today, Malan network includes 500 restaurants all over the world.

Very interesting restaurant franchise Beijing Quan u De's. This is a restaurant with millennial traditions of Chinese cuisine. Quan u De's restaurant chain is also known for its art of cooking "Peking duck". Chefs prepare the dish at your own recipe, which is kept secret. Restaurant for over 100 years, and in all the tourist guides restaurant Quan u De's designated as a must visit. Franchise restaurant chain Quan u De's has more than 60 restaurants across China.

Note also a few local franchise brands such as Mary Chia Beauty (Chinese Spa, which specializes in weight loss and skin care) Haier (Fast-growing company with sales in over 100 countries) li Ning (Brand sportswear). Li Ning distribution system was originally built on the franchise, which allowed the company to enter the international level. The brand founded in 1990, Olympic champion gymnast Li Ning (Li Ning).

Another sports brand - apparel manufacturer Anta (Anta), to concentrate more on the production of sportswear for young people. Anta company was founded in 1994. the company's first plant was opened in the city of Jinjiang, Fujian Province.

The center of world fashion has gradually shifted to China. Almost all well-known fashion brands are represented in China, and mass production is traditionally organized in China.

Again, China - a leader in the textile industry, which is represented mainly in the segment of serial inexpensive clothing. But noticeable process of formation of local brands of exclusive fashion. For example, trademark BELLVILES, which is actively developing franchising system, not only in China but around the world.

More than 58% of the Chinese economy presented on the east coast, although there lives only 37% of the population. Major franchise centers - Beijing, Guangzhou, Shanghai. Many franchisors use Shanghai as a gateway to enter the Chinese market.

Hong Kong, though a part of China, but the cost is positioning itself apart from the continent. Also in Hong Kong franchise sector differentiates itself by its franchise association. And to the Chinese statistics, you need to add more and the Hong Kong

statistics on franchising, and that an additional 300 franchise systems.

Japan.

Japan went through a period of very rapid economic recovery after World War II. After the crisis in the 90s, when burst "bubble" a giant in real estate prices, and collapsed on the stock exchange, the growth of the national economy significantly slowed down: But, to take timely measures, Japan quickly recovered from the crisis. The economic recovery has been driven by three factors:

- bank restructuring;
- transparency of financial reporting;
- restructuring production, particularly competitive industries (electronics, robotics, automobile industry) [13, p. 89].

As a result, the Japanese economy has become more efficient and competitive, especially in export industries.

Despite the fall of the economy, continued development of franchising in the country. However, the example of the crisis in the US can be seen that at times it is a crisis contributes to the growth of franchising, as to improve the efficiency of business.

In April 2002, the Japanese Fair Trade Commission ( *FTC*), authoritative body of the country, publishes a special guide that consists of three parts: a basic description of the franchise, the franchisor to provide the necessary public information at the time of offer of the franchise, the limitation of the vertical relationship of the franchisor and the franchisee (franchisor reducing dominate the franchisee). Despite previous legislation, this document has become the basic provisions of the regulation of franchising in the country.

The main cities of Japan, where most of the development of franchise, are the cities of Tokyo (the largest agglomeration in the world with a population of 35 million. People), Yokohama, Osaka and Nagoya.

Japan is the third market in the world in the number of franchise networks.

According to the Japan Association franchise (FA), the turnover of franchising in the country of more than 200 billion dollars a year. Total franchise networks reached

2400. The number of digits franchise points approximately 310 000. (Source: CAFLA).

The most important event in the world of franchising is an annual exhibition «Franchise show & Business Expo», which takes place in Tokyo. Exhibition is organized by the IFA and authoritative economic publication Nikkei Inc.

The main trading partners are Japan, the US and China, but the market offers products from all over the world. In addition to Chinese and American companies in Japan are well represented investors from the countries of the Pacific coast.

The traditional Japanese system of continuous improvement Kaizen, is present in almost all Japanese goods and services. Japanese entrepreneurs is constantly improving its own business model. Even the franchise networks, which are often synonymous with conservatism, in the case of the Japanese are continually optimizing.

Japan - a recognized leader in high-tech exports and automobiles. At the international automobile market recognized sales leaders are Japanese brands such as Toyota, Nissan, Mazda, Mitsubishi, Honda. Automakers, in most cases, use the franchise system in the sale of its products. Goods Japanese brands Canon, Sony, Panasonic, Akai, Fuji, which have become long since supranational brands are present in almost every village of the globe through the dealership, license or franchise agreements with local entrepreneurs. In addition to traditional export sectors, a significant proportion of the franchising sector belongs to concepts built on the basis of the traditional national cuisine.

Cafeteria style shokudo (shokudo) - a popular type of food service in Japan. One of the leaders in the segment is a chain of cafes in Japan famous family of restaurateurs Fujo, where restaurants, the art of management is transferred from generation to generation. Over the years, Fujo constantly improve the quality of food and level of service, thereby creating a great brand franchise network throughout the country. Most of the branded restaurant chain owned by independent entrepreneurs, united under the trademark Fujo.

Coffeehouses Doutor Coffee Co - another rapidly growing network in Japan,

popular for its delicious sandwiches, fresh coffee and a pleasant atmosphere. Coffee houses have become very popular in modern Japan, where tea consumption is part of the national culture. Local entrepreneurs have created some very interesting concepts in the coffee segment. But the leadership in the segment is gradually moving to the American chain coffee Starbucks Coffee Co, which is actively gaining global market, and the Japanese market as well. Also of note is the famous Japanese brand of national cuisine, emerging around the world through a franchise system - the famous chain Yoshinoya restaurants. The main dish of the restaurant is the fir mennoe Guodon dish (Gyudon) - a popular traditional Japanese dish made from beef and rice

Yoshinoya company has over a century of experience in the restaurant business. Today, Yoshinoya - the largest restaurant chain in Japan: 665 points across the country. Yoshinoya restaurants presented in countries such as the USA, China, Australia, Malaysia, Singapore, etc. Traditional Japanese cuisine is popular not only in the country but also around the world. Everything else in the world, the practice of franchises based on Japanese cuisine. The concept of these restaurants is created on the basis of Japanese cuisine, where the menu contains the basic Japanese dishes, while the interior design and the institutions designed in the traditional Japanese style. The author of these concepts can be any person, not even perhaps having to do with any of Japan. As examples of such concepts can lead Australian Japan city, and Canadian KOYA JAPAN Edo Japan's, Russia Planeta Sushi, etc. All kinds of Japanese sushi bars are very popular in the world and distributed worldwide.

The peculiarity of the Japanese market, in contrast to the same China, is the predominance of local brands in the franchising sector.

Summarizing, we can say that in the whole world there is a positive dynamics of development of franchising. Despite all the obstacles, the franchise is making steady progress on the world market of goods and services. There is a growing franchise model in which companies operate, namely the production franchising. Also, franchising is the best suited for the world market, where competition and brand promotion play a key role. In general, we can say that the franchise, despite the

problems, is one of the most reliable options for the business in the global developed market system.

Almost every type of business can be turned into a franchise. The International Franchise Association identifies 70 sectors of the economy in which it is possible to apply various types of franchise. Franchise systems take many forms and can combine a variety of data relationships of participants [14, p. 62].

However franchising depending on its shape chosen as certain inherent advantages and disadvantages (Appendix 2).

Given the specificity inherent in the franchise, is the possibility of selecting subjects of a particular type of franchise, the most is the optimal form for their business activities, took on a particular market for goods and services, as well as the stability of the franchisee.

Franchise can be divided depending on the rights that it provides to:

-exclusive (exclusive right of the franchisee to use the franchise in a given territory); a non-exclusive (the presence of competition, ie the presence on the territory of a number of franchisees, representing the same network, and directly to the franchisor).

global franchising giants resort to the following strategy for the development of the franchise network in different countries: first of all created their own enterprise, which for some time conducts its core business, while studying the market. If the result of the conclusion of the compatibility of the business approach of the company and the market environment, as well as local entrepreneurs are willing to accept the conditions and work on the franchise, the representative of the franchise company starts to search and direct selection of franchisees.

Depending on the package that contains the franchise distinguish the following types of franchising (see. Figure 2)

Trademark franchise called the sale of manufactured goods by the franchisor, which is fixed for their trademark. Franchisee carries out their after-sales service, as well as the legal owner is the manufacturer. The right to use the franchisor's trademark

is the main transfer rights.



Figure 2 - Types of franchising

Note - compiled by the author source [15]

Delivery of goods is made by the franchisor in the following ways: directly from the franchisees or through an intermediary, whose task is to direct the distribution of goods and services. In the role of mediators may be:

- agents;
- distributors;
- other representatives of commerce.

Using mediation, we can significantly increase the volume of products sold. Among other things, in this situation it is possible to sell its products in the areas that are remote from the main.

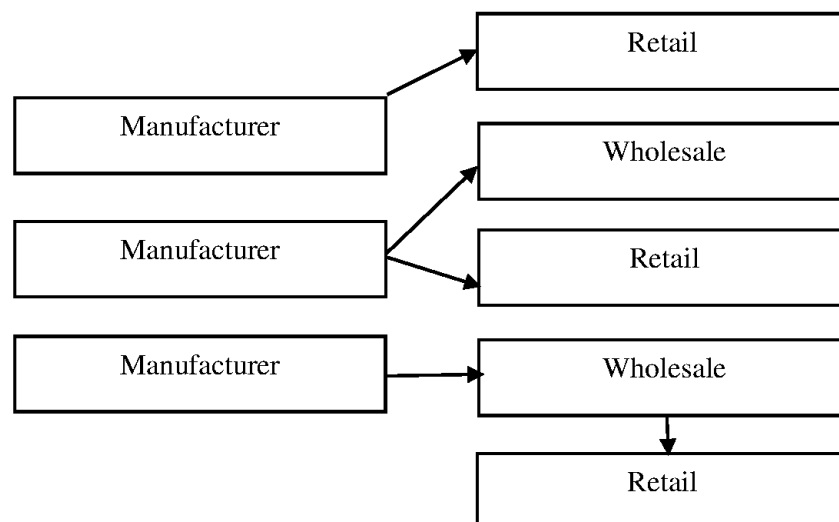


Figure 3 - Scheme relationships with commodity franchising

Note - compiled by the author source [6]

By involving third parties, there is better control of material costs and therefore lower costs.

Interactions between intermediaries and franchisees may be different, but the basic parameters in the data relationships are product grade, uniformity and proprietary [16, p. 417].

Basically, this type of franchising is used in trade. It is used as a relatively goods manufactured by the franchisor, and other companies and sold under the brand franchisor. Most often it is being implemented with the help of a product that has a known brand or require special shopping services before or after the sale (petrol, cars, alcohol and soft drinks). As an example of the effective functioning of this type of franchising can lead the company "General Motors", which to this day is considered one of the leaders in the automotive industry. Scheme relationship with franchising product is shown in Figure goods franchising is the most risk-free regarding the others, but the most competitive, in fact, this type corresponds substantially to half of the franchisee. In view of the high degree of competition, franchisors offer specific competitive advantages for the franchisee.

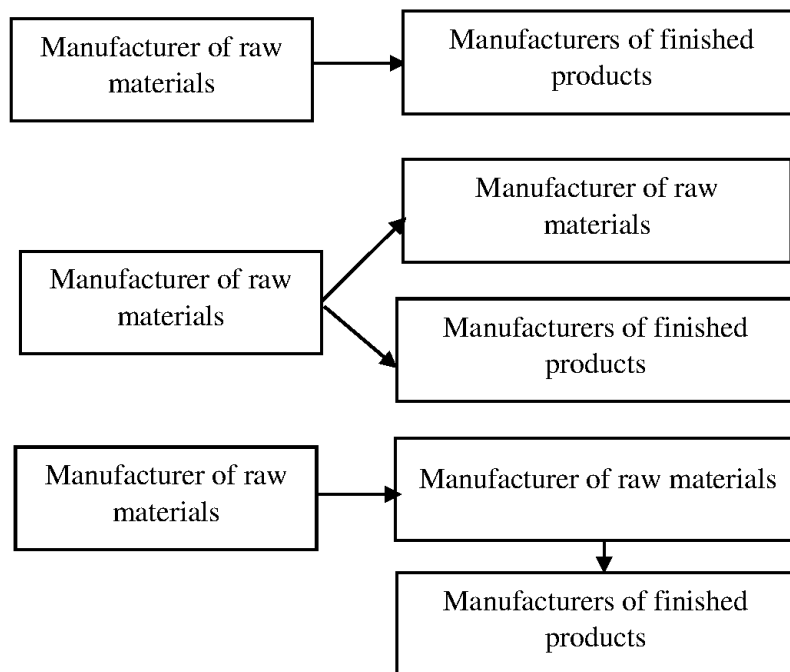


Figure 4 - Diagram of relationships using industrial franchising

Note - compiled by the author source [16]

On the positive side of using this type of franchising can be attributed, as

mentioned earlier, the minimum risk for the franchisee, because all their activity is the sale of products already well-known brand. Also for commercial franchising is characterized by ease of control of the financial result of the franchisee (how many buys and sells as much), and the uniformity of the company network. A significant advantage to the franchisor in commercial franchising is the development of the warranty market. Production franchising whose operation scheme is shown in Figure 4, is the most efficient organization of production of particular products.

Brand patent holder for the manufacture of the finished product and raw materials secret, ensuring the end user performs feedstock and transfers the right to use this technology. The franchisor is a producer of raw materials, but in most cases the owner of rights - an enterprise which is not a producer of raw materials or finished products, and the scheme of relationships formed on the other two options.

This view is based franchising purposes, are common for the parties (see. Figure 5).

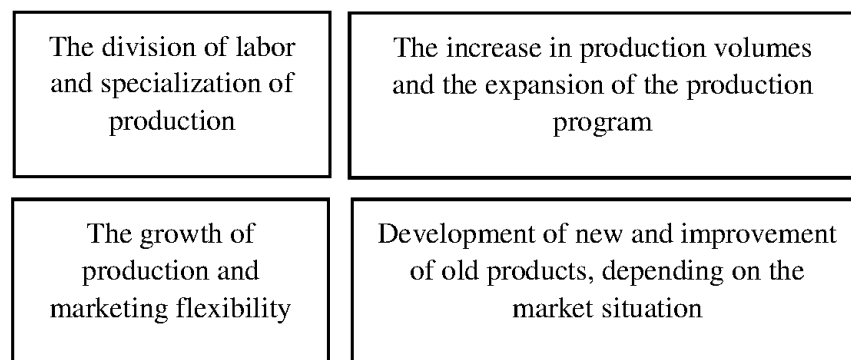


Figure 5 - Production franchising Goals

Note - compiled by the author source [16]

This type of franchise also involves the transfer of the franchisor their patented technologies and raw materials for the production of a specific product. In most cases, the franchisor gives the franchisee manufactures and special ingredients, the method of production of which has not been disclosed.

In most industrial franchising is used in the implementation of non-alcoholic beverages. Almost all enterprises engaged in bottling and packaging of the products

of such companies as Coca Cola, Pepsico, etc., Carry out their activities within the production franchising. In this case, the franchisor sells the franchisee required to produce concentrates, and the franchisee, in turn, distributes the finished products among local dealers [17, p. 121].

Production franchising has many similarities with the license agreement, but the franchisee, in contrast to the licensee, in their relations with consumers, working iodine trade name or trademark of a franchisor, is associated with it and is a member of its products (services).

Within the framework of the type represented by the franchise agreement is subject to the sale of special, preferential terms of special equipment for the production of certain products. At the same time franchise package usually includes requirements for the development of the places of manufacture and storage of products, the management of the organization of production and the instructions for production personnel management, as well as the right to use patented technology and brand.

Production Franchising helps the most efficient way to organize the implementation of a certain type of product, and also allows you to put the production on an economically profitable areas.

The tasks, which are solved by production franchising are:

- division and specialization of manufacturing a pile;
- increased production and expansion of the production program;
- ensuring profitability of production;
- increase the flexibility of production and sales, commensurate with the requirements of the market;
- rapid introduction of new ideas;
- development of new products based on changes in the market [18, p. 281].

By solving this type of problem, the entrepreneur receives a competitive advantage, allowing him to work in advance, which is necessary for the reduction of life cycle products.

The disadvantages of franchising may include production restrictions imposed

on the franchisee:

- Franchisees can buy raw materials only from approved suppliers and franchisor of certain prices;
- the franchisee can not choose a cheaper supplier, thereby reducing the cost of finished goods and increasing the profit margin itself;
- the selling price of the goods as per the network is predetermined and the franchisee can not change it.

The third type of franchise, which will be discussed in this paper, is a franchise business format, the circuit is shown in Figure 6.

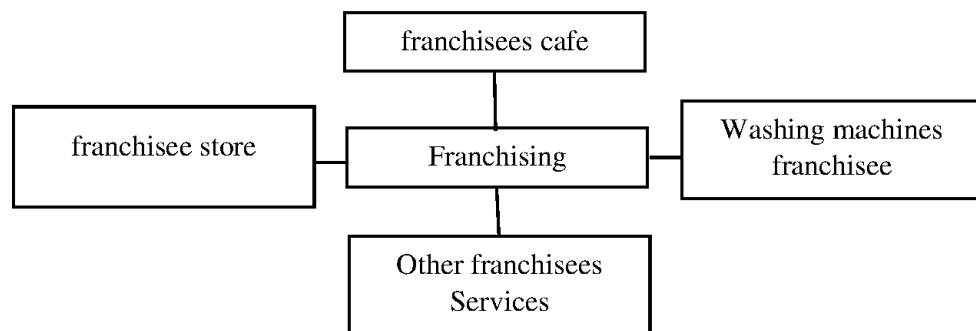


Figure 6 - Diagram of relations with the franchise business format

Note - compiled by the author source [16]

Franchisor franchisee passes invented technology organizations and business, and the franchisee, in turn, through the conclusion of the contract, it becomes part of the overall corporate system.

In this form of franchising franchisor himself may act in the role of the company, whose main activity is the extraction of raw materials, or it may just be the owner of the rights that are transferred by contract franchisees under certain conditions. However, in this case, all the companies involved in the system, are obliged to act according to common standards, in the general style and adhering to the rules of intra.

Franchising business format is possible only if the system has been tested, it has proved itself and is able to compete. The main role, in addition to the trademark, brand and external consistency, plays all common elements of activities that make it possible

to determine not only the franchisor but the quality of food provided to them, works or services. Franchising business format is inherent, mainly those networks that are in the market for an extended period of time [18, p. 127].

Development of standards, description of business processes, development of requirements for the system and its use, the formation of the model, its validation and win the trust of consumers, the formation of a system of relations within the network, as well as providing management capabilities growth is a challenge, because it requires a lot of time.

If we talk about the shortcomings of the franchise business format, it can be noted that in this case the buyer of the franchise is forced to follow the established standards and rules, not to maximize profits from the business. Also, the franchisee rarely can have a significant impact on the decisions made concerning the centralized marketing and advertising company.

The last kind of franchise is a service that combines the features of both commercial and industrial franchising and is a kind of symbiosis of these species.

Service franchising is used in the service sector and its essence lies in the fact that the franchisee is given the opportunity to engage in certain activities using the franchisor's trademark, that is, the character which have been patented by the franchisor franchisee transferred under the contract. This can be expressed in the use of the franchisor different recipes or procedures for the provision of a special kind of service [19, p. 418].

Franchisee settles their point of all the standards and requirements set by the franchisor, thus acquires the right to decorate All trademarks network. Among other things, the franchisor, for its part, assists in education and training, which will operate under its brand name. Also, this type of franchising for the franchisee opens access to different corporate information and a database of special software.

When you work in the service franchising is particularly important that all the items in the process of service delivery.

It should be noted that the development of the service franchise quite heavily

influenced by the changes taking place in society, such as fashion trends on a particular type of service, all kinds of people's interests, as well as the overall financial and political situation in the region [20, p. 419].

Through the interaction of the franchisor and the franchisee, consumers interested in purchasing a product or service from the brand, can quickly learn what quality and quantity of the good he can apply for a fee, which saves time searching for and satisfaction of need and quality services have a positive emotional impact, allowing re-use of the services of the franchisee.

The main disadvantage of franchising service can call it a complex organization, as the standardization of service points require mastering all the standards required in the provision of services.

Despite this, service franchise can be called the most promising views presented earlier, as one of the main indicators by which to judge the welfare of any particular city, region, state is the development of services, in which he works [21, . 968].

Using a franchising allows the company to optimize and improve their operations. It is generally accepted that businesses that use franchising, has three strategic objectives presented in Figure 7.

Capacity growth is characterized by a situation in which the place of sale of products is more than enough, and the operating costs of the productive work of the network begins to bother the owners and investors, because it takes a large part of the firm's profits.

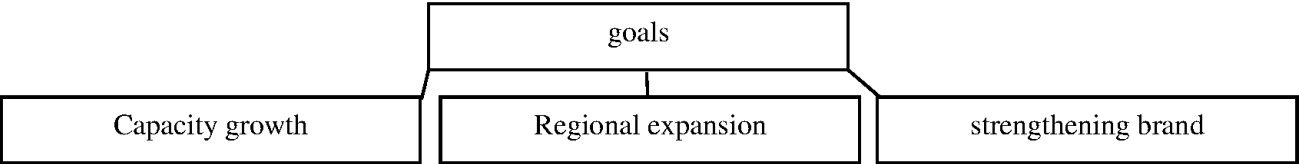


Figure 7 - Strategic goals of franchisee

Note - compiled by the author source [21]

In Kazakhstan, there are organizations, including more than 10 companies, and

for them this is a problem is the most urgent in the short term. Firms planning to rapid growth, it is necessary to determine the size of its own network, and subsequently improve, recourse to franchising.

It is possible to reduce costs in almost all operating costs such as maintenance costs, salaries of employees, taxes, deductions payroll, et al., Since all of the above falls exactly on the franchisee [22, p. 53].

The functions to be performed by the franchisor, include ensuring the availability of the required amount of products or raw materials on their own stock and assisting franchisees in the organization of franchise businesses, as well as during its operation.

Regional expansion, which is expressed in large-scale network consisting of separate businesses, shops or offices located in different regions, support not advantageous due to high operating costs. Among other things, each region has a special economy, administration, as well as social and cultural identity. The franchise model allows in addition to saving on the costs of maintaining the network, taking into account the particularities of each region. The important is to strengthen the brand. Brand is formed by significant investment in advertising, but there is another way: building a strong company network. If the preference is give herself a second embodiment, it is necessary to form a clear vision and memorable overall assortment (products or services) so that the network actually got kind of "brand" or, in other words, it becomes united. The organizations own range of goods sold may differ, but the general concept is blurred, it is unacceptable for businesses, built on the principle of franchising [23, p. 8].

Based on the foregoing, it should be noted that every entrepreneur, whether the franchisor or franchisee, should determine for itself what, in priority, its efforts should be directed.

At the conclusion of the transaction but the acquisition of the franchise in the contract spells out the duties of both partners (Table. 2) [24, p. 41].

Table 2 - Duties franchisor and franchisees

|                                                        | franchisor                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | franchisee                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                        | 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 2                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| obligations of parties                                 | <ul style="list-style-type: none"> <li>- help in choosing a primary service and location;</li> <li>- help with the training;</li> <li>- assistance in preparing for the opening of businesses, namely the implementation of the planning and equipment manufacturing, utility and storage rooms, preparation of the necessary equipment, transport operations, the selection of a standard nomenclature of goods, assistance in leasing and rental operations;</li> <li>- provision Fin. support;</li> <li>- market monitoring;</li> <li>- advertising and promotion;</li> </ul> | <ul style="list-style-type: none"> <li>- forming the main part of the company's capital from its own resources;</li> <li>- compliance with production and sales of standards prescribed in the contract of franchise;</li> <li>- compliance compliance activities of the units belonging to the company marketing activities for the sale of goods and provision of services;</li> <li>- payment of an entrance fee, periodic payments</li> </ul> |
|                                                        | <ul style="list-style-type: none"> <li>- assistance in production;</li> <li>- Planning consulting, management scientists</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|                                                        | - control over the quality of services                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | (Royalty) and others. Regular payments                                                                                                                                                                                                                                                                                                                                                                                                            |
| Note - compiled by the author based on the source [24] |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

Compliance with its obligations of the parties of the transaction will provide them to obtain the following options:

a) for the franchisor sold the franchise will mean an increase in production and sales of goods and services that will help to attract additional financial resources from the franchisees, without putting their own capital at risk, as well as to increase its relevance and to increase the proportion occupied by the market. Among other things, these relations based on reciprocal information links that will ensure a continuous exchange of experiences and acquiring new knowledge, directed at optimization of ongoing activities. More efficient use of production areas and premises, a significant reduction in costs due to economies of scale and the transformation of existing units in the franchise, will improve the operational efficiency of the franchisor;

b) for franchisees significant benefit will be to obtain additional income from the use of the well-known trademark, image, know-how, etc. intellectual property of the franchisor, its business relationships. Opening their own franchise businesses, the use of accumulated franchisor experience, both positive and negative, the application of an effective structure of production and sales, obtaining a standard set of services necessary for the opening of the company, as well as business practices by analogy with the franchisor, provides stable operation and competent promotion of the acquired franchise in the market. Among other things, a permanent advisory support from the franchisor allows the franchisee to manage your company more efficiently and significantly reduce existing risks [25, p. 46].

Consider the conclusion of the contract process in more detail. According to the law, the contract is concluded in that case, if each of the parties came to a consensus on all the established and prescribed in the contract items. Generally considered the conditions of the subject matter of the contract (These may include exclusive character assigned to the franchisor), the requirements specified in the law or other legal acts necessary for contracts of this type (the presentation of these exceptional character franchisee franchises), as well as all those conditions regarding which at the request of one of the parties must be reached agreement.

The signing of the agreement implies the direction of the offer, as is addressed to one or several concrete persons, quite accurately represents the interests of the

person making the proposal to be entered into a contract with the addressee that the offer is accepted. The proposal should contain the basic terms of the contract should be precisely defined intention of who it comes (the offeror), consider themselves entered into a contract with the recipient (acceptor). On offer, in some cases, it may be not only the franchisor but the franchisee.

However, it is necessary to avenge that a public offer, implying signing of an agreement with any destination, responded to this proposal, it is impossible to directly attributed to the franchise, as franchisor, in this situation, selects candidates for the purchase of a franchise, but does not sell it to anyone who wishes.

In addition to the mandatory pay taxes to the state, there are other payments to the franchise, presented in Figure 8.

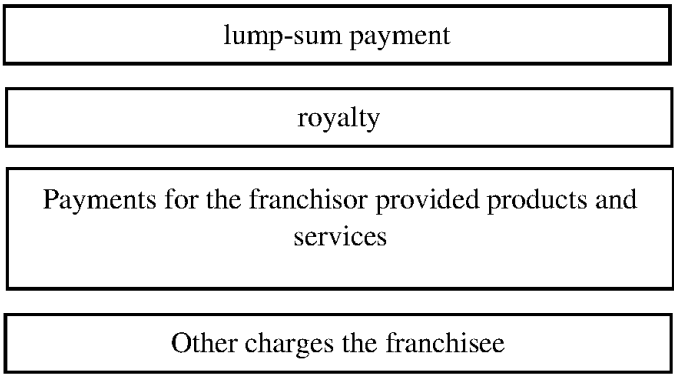


Figure 8 - Mandatory payments under the contract franchise

Note - compiled by the author source [26]

Lump-sum payment is fixed in the contract acquisition amount deductible agreed between the franchisor and the franchisee. Royalty, in turn, is the periodic payments that are considered the cost of sales.

Thus, we can conclude that in the current literature, there is no single franchise concepts. In different countries, the term is used either as a "franchising" or as "commercial concession". However, its value as a whole is the same: Franchising is a method of organization and implementation of business activity, implies a system of interactions, prescribed in the contract of franchise and other related documents. In

turn, a franchise is a set of rights transferred to the franchisor under the contract, to enter into a process which is strictly regulated. It is assumed that the business, which is described under the franchise, a priori, is successful. But this does not mean that the franchising company will have a competitive advantage. Because in addition to the competitive advantages of the products or services, should be a competitive advantage and the most franchises. Potential franchisees must see the advantage of buying a franchise.

What is the advantage of the acquisition of the global franchise? The fact that the franchisee receives rent-known trademark and the technology to produce a unique product.

What are the advantages of buying a franchise Kazakhstan's trademark? Franchisee receives a complete package of tools and technologies from the existing and successful enterprise that guarantees profits franchisee. Only a competitive advantage encourages franchise franchisees decide to purchase. The franchisor is necessary to determine a competitive advantage, which is based on the determination of key parameters of success, enhancing strengths, improving efficiency, determining strategic niche franchise and improving the functional features of the future of the franchise.

## 2 Method

This chapter describes the qualitative analysis of franchise companies, both domestic and foreign, are planning to enter the market of Kazakhstan in the near future.

Experts poll:

- The study involved representatives of 56 companies who are building their business on a franchise model.
- The survey was conducted in the technique of semi-structured individual interviews.

Interviewed representatives of four target groups: (a) the franchise companies represented in Kazakhstan, (b) foreign franchise companies wishing to be represented in Kazakhstan, (c) domestic brands and franchises who wish to be represented in the regions, (d) domestic brands and franchises, represented and / or wanting to be represented abroad.

Qualitative research methods were used to identify a particular expert opinions on the development of the franchise market in the country. Field work took place in the period from 01 to 22 March this year. Expert interviews were conducted by face-to-face in the workplace of the respondents, except the survey of representatives of foreign franchise companies, not yet represented in Kazakhstan and only preparing for entry into our market. Foreign experts were interviewed using a computer program Skype technology.

I was interested in qualitative analysis, which revealed the dissenting opinion of experts. As experts, business leaders have been invited, is the master franchise, regional franchisors and franchisees. Particularly interested in the opinion of experts on state and private support for the franchise market in our country and the role that could be played by JSC "Entrepreneurship Development Fund "Damu" in franchise development.

To the question "What is the actual payback period of the franchise?" The vast majority - 71.4% (40 respondents) said that franchise can be recouped in 12 months,

17.8% (10 people) stated that it will take 24 months, 7.14% (4 people) said that they required less than 12 months in order to recover a franchise, and 3.6% (2 persons) respondents were more pessimistic - more than 24 months (see Figure 9.).

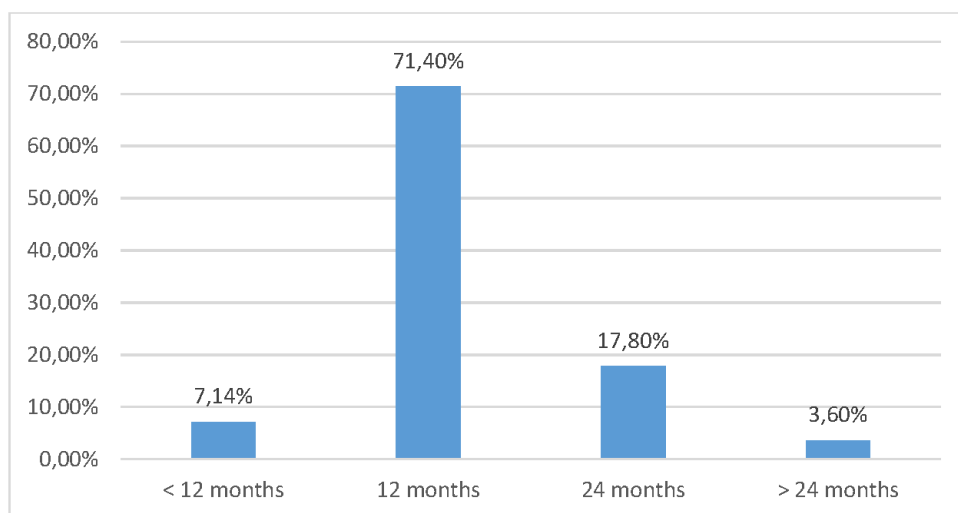


Figure 9 - Payback franchise

To the question "What are the Kazakh government organization designed to promote the development of franchising in the country?" 39.3% of respondents (22 people) said that everything depends on the work of the Government, 8.92% (5 people) highlighted the role of local government offices, especially in the allocation decision grants and subsidies, 35.7% of the respondents (20 people) noted the important role of the entrepreneurship development Fund "Damu". And 16% (9 persons) mentioned the role of the National Chamber of entrepreneurs (see. Figure 10 ).

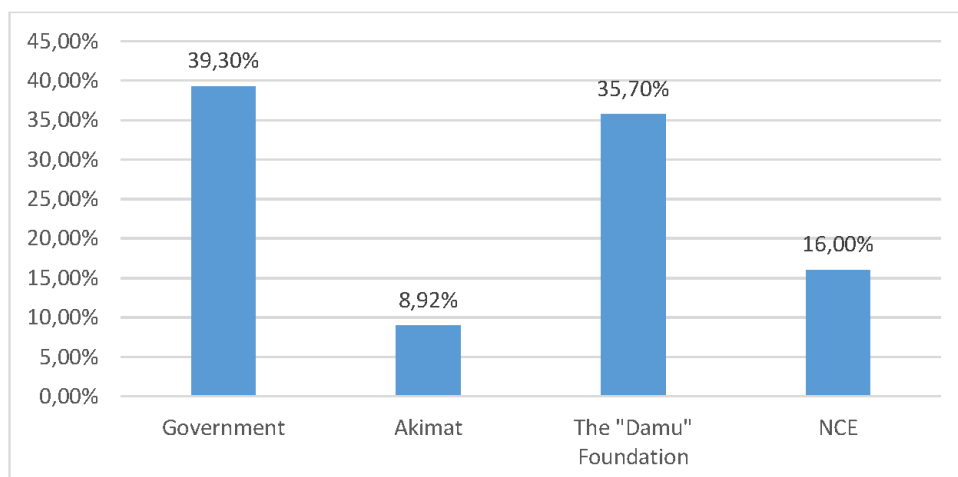


Figure 10 - Which of the RK state organizations designed to promote

franchising?

To the question "Do you feel the need for any assistance from the state organizations for business development for the franchise?" Affirmatively answered 26 respondents (46.4%) answered in the negative - 12 people (21.4%), undecided - 18 people (32.1%). A large number of doubters because this answer was given to many foreign franchisors, due to differences in state support mechanisms in different countries (see. Figure 11).

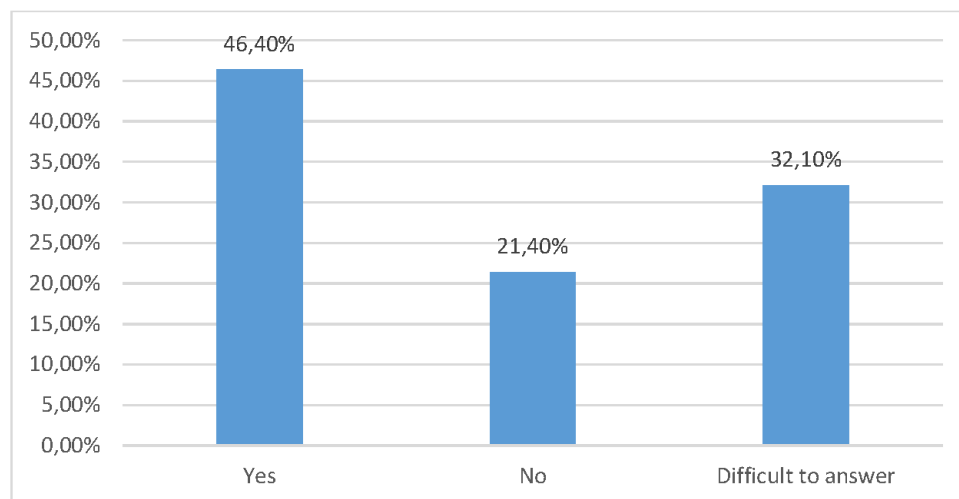


Figure 11 - Is there a need to promote the development of the state bodies of franchising?

To the question "What is the JSC" Entrepreneurship Development Fund "Damu" could contribute to the development of franchising in Kazakhstan? "Respondents noted that the Fund could streamline the process of obtaining loans for the purchase of a franchise. In their view, it is very tight. No clear timetable and regulations throughout the consideration of the project. The Fund could provide feedback between the Fund and an entrepreneur, it is difficult to trace in the review process and what authority is the project.

The question "What kind of activities you are interested in franchising?" 41% (23 respondents) noted the urgent need for accessible information materials on franchising. 21.4% (12 people) have expressed confidence in the necessity of creating a specialized website (portal), which would be available for public information on the

proposed franchises, advice on legislation and on how to receive a grant for the purchase of a franchise. 19.6% of the respondents (11 people) noted the importance of exhibitions and presentations. The necessity of round tables relating noted franchising 7.14% (4 people). 3 people (at 5.36%, respectively) were in favor of the organization of conferences on-line via a dedicated website and a special business forums on specific real franchising issues (see. Figure 12).

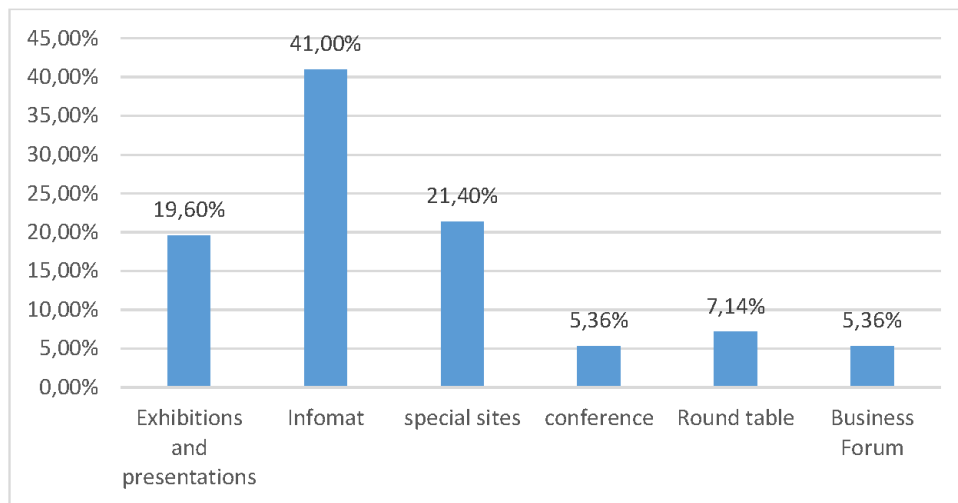


Figure 12 - Which activities are interesting franchising?

The question "Have you heard about KazFranch show?" answered yes, 51.8% of the respondents (29 people), 26.8% (15 people) have not heard anything about the exhibition. Difficult to answer 21.4% (12 people). Among answered negatively, mainly foreign companies that are just planning their entering the market (see. Figure 13).

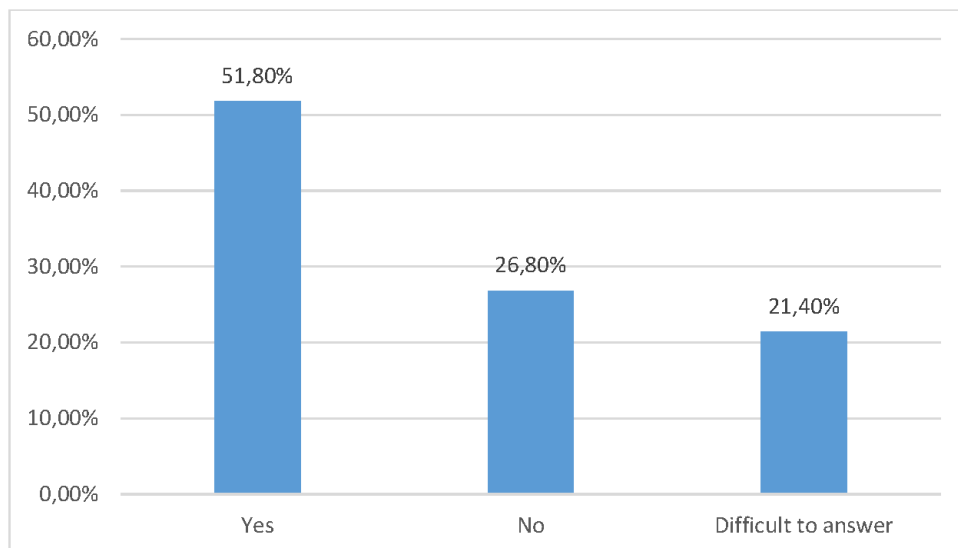


Figure 13 - Have you heard of KazFranch exhibition?

To the question "Would you like to take part in the exhibition KazFranch- 2018" "affirmatively answered 21 respondents (37.5%) had a negative - 19 respondents (33.9%) were not defined with the decision - 16 people (28.6% ). Among the reasons that respondents refuse to participate in the exhibition, the registration fee for

participation, and increased overhead costs were identified (see. Figure 14).

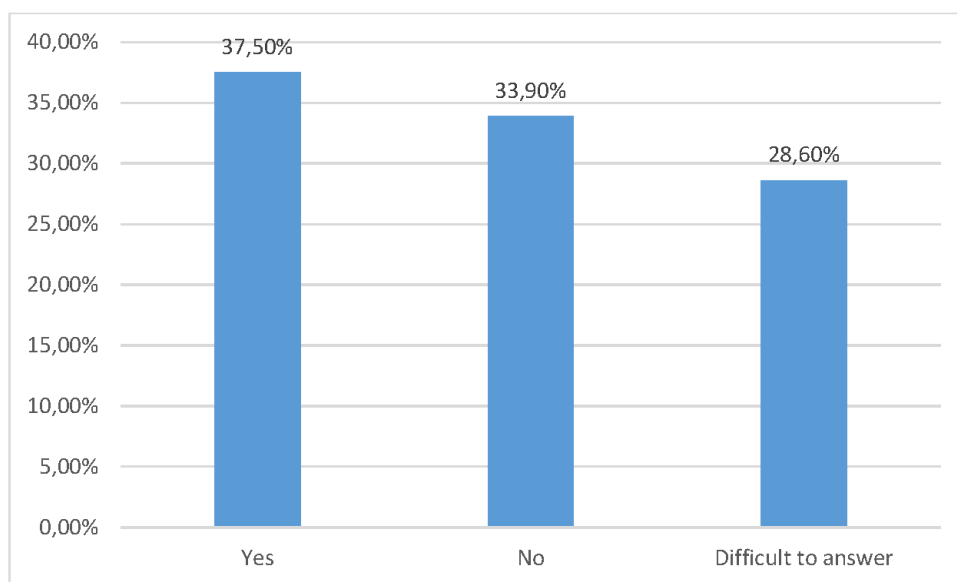


Figure 14 - Do you want to take part in the KazFrance exhibition?

Below is a summary table highlights some special expert opinion that was expressed during the interview (See. Table. 3).

Table 3 - A special expert opinion

|       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| loans | <ul style="list-style-type: none"> <li>- "Those who buy a franchise in the regions - is mostly bankers or former bank employees who know how to get a loan without any hassle."</li> <li>- "Man is usually not more than 30-35% of its own funds, he hopes to get the rest in the bank in the form of loans."</li> <li>"It is in Astana and Almaty even though some order there, at least apparently, in granting loans. In the regions to get a loan - from the realm of fantasy. "</li> <li>- "Credit can be obtained in only one way - a lie! The banks require a credit history, where it at start-up entrepreneurs, if I did not apply to the bank for loans once. Therefore, you want to get a loan - it is necessary to make a false credit history, that is lie. "</li> <li>- "Why do I have a clean credit history, if I startups?"</li> <li>- "For example, no one checks the franchise, how much they are decent. "Orange Elephant" - a franchise with a bad reputation, but it is growing. Why? Because no one checks, the same Damu is not checked. "</li> <li>- "Credit can be obtained if you are startups, in another case, it is</li> </ul> |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | almost impossible."                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| room                      | <ul style="list-style-type: none"> <li>- "The issue is not even about money. We would find it, but let the Damu will help solve the problem of premises. You know how much it cost to rent the premises are now in Shymkent and Kyzylorda? 25-28 dollars per square. But, because we are not as wages in Almaty. Where have you seen that kind of money wrung. And the room is almost impossible to find. "</li> <li>- "If Damu wants to help the franchise, even if to do something with the room price and with the very premises. Let some database will do something, which would indicate that for people buying a franchise, where and for how much you can rent a room. "</li> </ul> |
| conference                | <ul style="list-style-type: none"> <li>- "To get to - you have to pay, but if you (Damu) want to help, then why these activities are paid?"</li> <li>- "I am ready to perform for free in front of the same businessmen and franchisees. I will not take money, by the example of our franchise will explain and tell you how it works. Why not invite real people and not allow them to speak? "</li> </ul>                                                                                                                                                                                                                                                                                |
| NGO                       | <ul style="list-style-type: none"> <li>- "All NGOs have a commercial interest, and the Agency franchising cherished, and where is the result?"</li> <li>- "Why do we have to participate in the exhibition? For participation in the exhibition people have to pay a lot of money "</li> <li>- "Slurred any organization agency franchise development"</li> <li>- "Public organizations, mostly have only paid services"</li> </ul>                                                                                                                                                                                                                                                         |
| Information               | <ul style="list-style-type: none"> <li>- "We need simple and clear information and without money"</li> <li>- "We need a real portal for the franchise, with more public information. With proven franchises, the elements of the statistics need "</li> <li>- "Moderate this portal itself should Damu and not a private company, and it will again take money for everything - for registration, receiving information, etc."</li> </ul>                                                                                                                                                                                                                                                   |
| checks                    | - "Go check legally very difficult, all the time squeezing money"                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Support of state language | <ul style="list-style-type: none"> <li>- "There is much talk about the support of development of the Kazakh language. We are here for yourself, with your own money transferred to educational and training materials for groups "</li> <li>- "A lot of talk about the language, but a real help to us - no children's centers, no subsidies, no materials. Brew in their own juice. "</li> </ul>                                                                                                                                                                                                                                                                                           |

### **3 Analysis and Findings**

In this report, it has been described and summarized the results of a study on the status and analysis of the development of franchise market in the Republic of Kazakhstan.

Originating in Europe and received a powerful impetus to business in the United States, franchising has become a global market for a long time, as was the widespread development. The general trend of the global franchise market of recent years is the fact that it shows positive growth factors due to the growing middle class in developing countries in South America, Eastern Europe and Asia.

There are regional and national differences in the ratio of domestic and foreign franchises. In the US, however, as in Latin America and Asia dominate the domestic franchise, while in the EU their number does not exceed 50%. On the franchising market in the former USSR, in the same Russian and Kazakhstan so far dominated by foreign franchisees. There was abnormal situation in the Kazakhstan market, where the share of local franchises does not exceed 10%.

Over the past five years, the number of domestic franchise systems has increased more than 3 times. In addition to the active growth of the number of mass media in Kazakhstan there are several additional reasons why franchising began its rapid growth during this period.

Typology of franchising to distinguish its three main types: trade (distribution), industrial, and business or franchise business format. In Kazakhstan, the predominant distribution, franchising, hard enough to develop the manufacturing sector - in the field of industrial franchising for only 2% of all the networks involved in the local market. As a result, the franchise is actively applied, primarily in the service sector and trade.

In the future, the growth of industrial franchising share is possible, but in Kazakhstan conditions, without government support, it is unlikely at this stage of development. In view of the geographical location of Kazakhstan and the large disparity between urban and rural populations a priority could be agrarian franchising,

examples of which are in developing countries were presented in the second chapter the example of Nigeria and India.

At the beginning of 2018, the number of franchise systems in Kazakhstan has reached 340. Each network has an average of 4-5 franchised outlets. The largest number of points in a franchised network- 55 min -1. Today in Kazakhstan the share of franchising in business is according to various sources, not more than 1% -3.5%, with more than 25,000 people are employed in the franchise sector. The annual turnover of the enterprises working in the franchise, is approaching \$ 700 million.

The main legal acts regulating franchise relations in the Republic of Kazakhstan are:

- The Civil Code of the Republic of Kazakhstan (special part) from July 1, 1999 number 410-1, chapter 45 ("Complex enterprise license"), in this chapter lists the objects franchised, basic rights and obligations of the parties, registration of contracts.
- Article 902 of the Civil Code defines the concept of "integrated entrepreneurial sub-license", describes the possibility of granting the licensee (franchisee) a sub-license (sub-franchising).
- Law of the Republic of Kazakhstan dated June 24, 2002 №330 «On the complex entrepreneurial license (franchising)." This Law regulates the relations connected with the implementation of complex business license, and is aimed at the development and support of franchising. The law defines the content of complex business license contract, the rights and duties of subjects of franchising, as well as the role of public authorities in the development and support of complex entrepreneurial license in the Republic of Kazakhstan.
- Law of the Republic of Kazakhstan dated July 26, 1999 № 456-I «On Trademarks, Service Marks and Appellations of Origin." This law defines the procedure for protection of intellectual property and trademarks.

In this study, a survey was conducted in the technique of semi-structured individual interviews. Interviewed representatives of four target groups: (a) the franchise companies represented in Kazakhstan, (b) Foreign franchise companies

wishing to be represented in Kazakhstan (c) domestic brands and franchises who wish to be represented in the regions, (d) domestic brands and franchises represented and / or wishing to be represented abroad.

Summarizing the study, it is possible to make some recommendations for improving the process of development of franchise market in Kazakhstan.

#### RECOMMENDATIONS:

In the regulatory legislation:

1. Mandatory registration of treaties governing the franchise relationship is necessary because its absence may eventually lead to an increase in the number of frauds in the field of franchising, and as a consequence, will generate additional social and psychological obstacles in the way of franchising in Kazakhstan.

Recommendation: Consider the introduction of mandatory registration system of treaties governing the franchise relationship.

2. The lack of a uniform pricing across the franchise network will prevent the user to perceive the entire network as a single unit, and can also disrupt the business process developed by the franchisor, which may eventually lead to a decrease in the popularity of the franchise. Recommendation: Consider the possibility of excluding the above restrictions of Civil Code of RK for the subjects of franchising.

3. Mandatory ongoing support the franchisor franchisee. In the Republic of Kazakhstan Law "On the complex entrepreneurial license (franchising)" comprehensive duty of the licensor in terms of training is limited to paragraph 2 of Article 15: to train and advise the licensee on matters related to the implementation of these rights. While under the laws of Russia, Ukraine and Belarus, if otherwise provided by the franchise agreement, the franchisor is required to provide the user a permanent technical and advisory assistance, including assistance in the training and development of employees. This difference in wording may lead to the fact that the franchisor, while continuing to receive royalties, will cease to provide support and improve the skills of workers franchisees, as well as reduce the level of control.

Recommendation: Consider reviewing the above points to increase the

protection of the rights of franchisees (complex licensee).

4. The introduction of the requirements of Kazakhstan on regulation of the order of disclosure of the franchise in the pre-contractual phase will promote the development of the franchising market and the growth in popularity of national franchises, if the proposals will be competitive.

Recommendation: Based on foreign experience to consider the possibility of introducing in the Republic of Kazakhstan regulations and standards regulating the order of disclosure of the franchise in the pre-contractual stage.

In the field of lending:

1. Difficulties with registration and obtaining grants for the purchase of the rights to the franchise hampers the development of the industry, especially in the regions.

2. Limited access of entrepreneurs to the so-called "long money" and bureaucracy and corruption at registration of the credit in the banks, in view of the mandatory requirement for entrepreneurs to have a credit history, except for startuper.

3. The sharp rise in property prices, especially in the regions is essential, since no high purchasing power of the local population. High real estate prices make unprofitable franchise opening point, which is a significant barrier to the development of franchising in general. Recommendation: Consider the training staff of the regional branches of the Fund's information space research opportunities to start a business.

In the field of information work with the target group:

1. Lack of awareness about franchising as a profitable form of business relations. No available and free materials on business opportunities for the franchise model.

Recommendation: Consider the preparation of information materials and distributing them through the centers to support entrepreneurs, the ability to advise individual employee LAC specialized by franchising market.

2. Public organizations designed to promote the development of the franchising process, through the organization of round tables, seminars, conferences,

mostly have only paid services, in fact, forgetting to raise awareness of existing and potential future entrepreneurs on franchising technology.

Recommendation: It is recommended to reconsider the concept of the organization of round tables and seminars, with an emphasis on inviting successful franchisors to share experiences on a pro bono basis.

3. Potential franchisors and franchisees feel the need to communicate information through specialized portal on franchising.

Recommendation: It is recommended to consider the development of an electronic platform (dedicated portal) to exchange views on issues of franchising with the relevant information in the public domain, features advice on grants for the purchase of the rights to the franchise, the legal regulation of franchise relations, the presence of Kazakhstan's "franchise stores" with the condition of compulsory moderation this site employees of the Fund, rather than non-governmental organizations and / or private companies.

## **4 Discussion and Conclusion**

In the years 2015-2017, Kazakhstan's economy has been exposed to negative external economic factors, which in turn are reflected in all key macroeconomic indicators and led to a decline in retail sales in Kazakhstan by 0.4%, whereas for the period 2010-2015. The average growth in retail sales was 13.4%. The reason for this decline was inflation and, consequently, the decline in real incomes, which led to a decrease in consumer activity.

At the same time, in the analysis process in terms of retail data for January-February 2017 (1.1 trillion. tenge) compared with the period of January to February 2016, in which the volume of retail made 985,000,000,000. Tenge steady growth of 14% observed in 2017, including the growth of the group "Business enterprises and organizations" was 24% in the aforementioned period, the growth of the "Individual entrepreneurs (including market trade)" amounted to 2%. In general, there is a gradual increase in the share of retail trade turnover of enterprises and organizations in comparison with the market trading. For the period January-February 2017 compared to January-February of 2016, this increase was 5%.

Taking into account the forecast of the Republic of Kazakhstan for 2017-2021 years (NEM RK) socio-economic development, it is expected growth in consumer activity during 2017, which, in turn, will stimulate the growth of retail sales in Kazakhstan by an average of 4.97% in comparison with the 2016 year.

The volume of retail trade in 2018 is projected at \$ 8 trillion. Tenge, 4.3 bln. tenge will be trade enterprises and organizations, and market trade, in turn, will amount to 3.7 trillion. tenge.

Thus, given the projected growth in the volume of retail retailers, which occupy a large share will trade enterprises and organizations, respectively, this trend looks very promising.

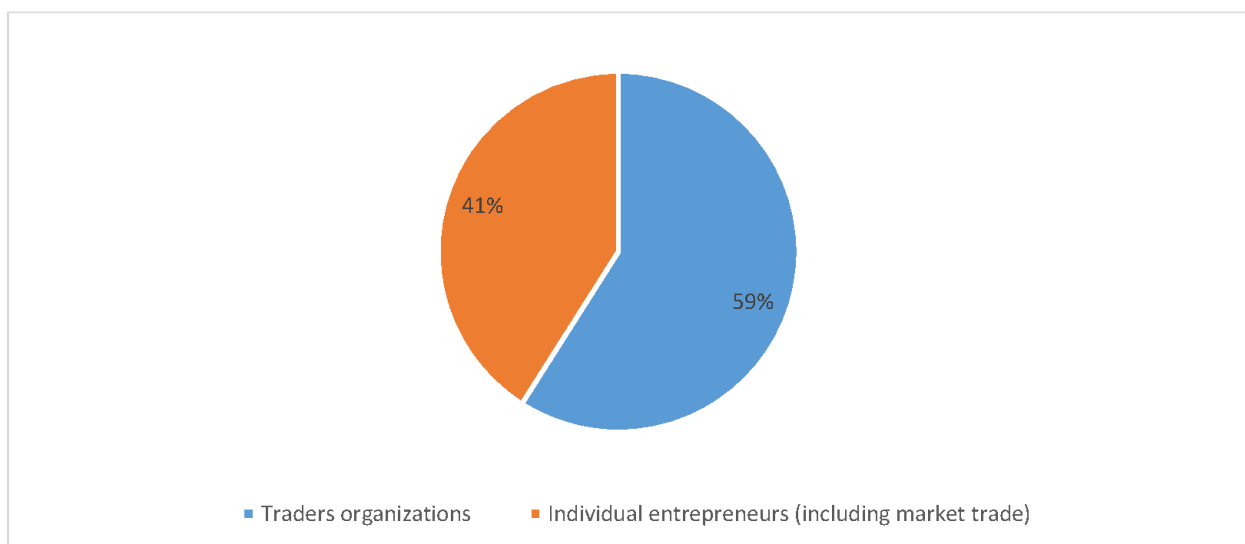


Figure 15 - The volume of retail trade in the Republic of Kazakhstan (January-February 2017), in%

Note - compiled by the author based on the source [30]

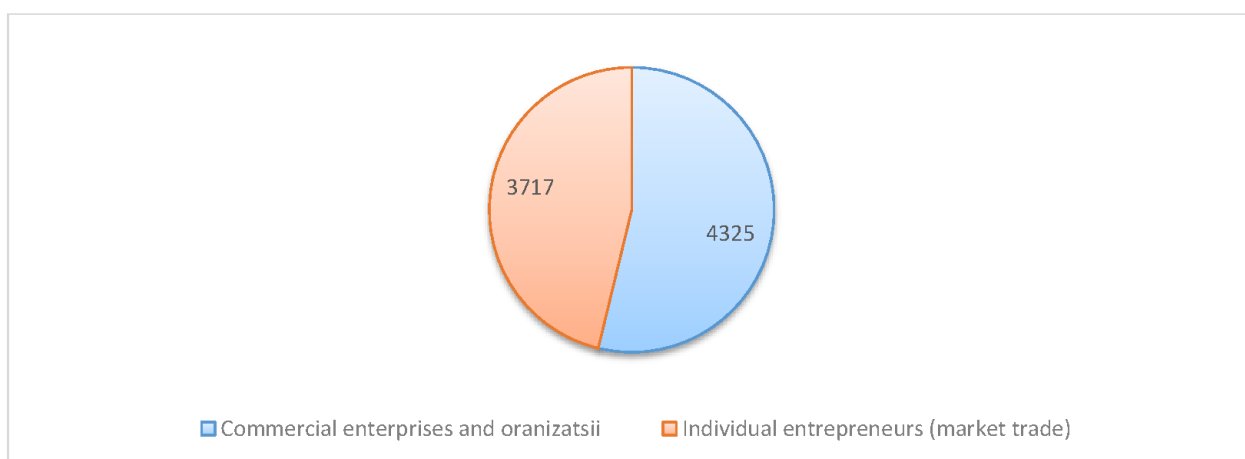


Figure 16- Forecast of volume of retail trade in the Republic of Kazakhstan (January - December 2018), in billion tenge

Note - compiled by the author based on the source [30]

Currently, the retail segment of the retail market in Kazakhstan work as a large international network, as well as local retailers. International retailers represented companies: Migros brand «Ramstore» (Turkey), Carrefour (France), METRO Cash & Carry (Germany). In 2018, according to some sources, it is planned to enter the market of Kazakhstan international DIY-retailer Leroy Merlin (France), OBI (Germany). In

addition, there is information on the ongoing negotiations about entering the market of international retailers Auchan (France), IKEA (Netherlands).

Kazakh clothes market in our country can be called very conditional - in 2012 the volume of garments manufactured in Kazakhstan amounted to only 5%, the rest - import. The main countries that fill our market - China (about 40-45%), Turkey (11%) and Russia (9%). Moreover, China and Turkey delivered to us mainly non-brand clothing.

According BRIF research company, in 2017 the market grew to 1.6 billion. This happened largely due to the increase in the number of shopping centers and the creation of favorable rental rates for retail space, in addition, it should be noted and the growing purchasing power. According to the Association of Light Industry, the real size of the market today is about \$ 1 trillion. tenge. Recently, however, the market creates more conditions for civilized trade, which increases the percentage of legal goods at the expense of attracting more foreign fashion-retail companies. In 2017 in the Kazakhstan market including about 200 international clothing operators, for comparison, there were two and a half times less than in 2007.

According to consulting company Trade Help, in 2017 on clothing costs accounted for 20% of the budget of the average Kazakh family. Growth fashion mass market slightly ahead of inflation in Kazakhstan (7%) and the dynamics of 9-11% per year with a turnover of about 360 Mill. Tenge annually.

Many players are fashion retail market operate in a niche of the middle class, which accounts for 60% of buyers. Half of the sales come from products for women, 35% - men and 15% - for children. The most well-known players in the market - the company Al Hokair Group (Marks and Spencer, Gap, TopShop, etc.), Azadea Group (Zara, Bershka, Mango, etc.), Almeo Group (Springfield, OGGI, peekaboo, etc. .d.), Union Space (Mexx, New Yorker, Motivi, etc.). But there are other brands that prefer not to develop the market by large companies and by individual entrepreneurs. It is also noteworthy that before entering the market, many brands try their hand in Russia, and only then come to Kazakhstan.

To the greatest extent, the attention of fashion-retail companies focused on large cities - Almaty, Astana, Karaganda, Shymkent. This is due, and population density and more commercial real estate area.

Commercial real estate - one of the main problems of the segment. Since 2015 she began to attach great importance, and already in 2017 according to the experts real estate market is estimated that its population has grown by 80%. However, experts fear that in 2-3 years will stagnate in the commercial property market.

Another problem: the lack of competition and market youth here - Nonconceptual stores, small range, the average level of service. Lack of quality brands at affordable prices - another indicator of weak competition. The ongoing crisis has not affected the development of fashion- retail. Conversely, the stability of the state increases the sales growth in the non-food sector, as the growing income of the population. The share of the markets and individual entrepreneurs still account for more than half of retail sales. In 2018 Akimat of Almaty announced the transfer of the bazaars and markets, this may be one of the reasons for increasing the share of civilized trade in the SEC. However, if there is no place to carry trade, it could drag on for years. Kazakhstan fashion-retail market is changing very rapidly. The market structure has a redistribution towards brands and price segments average average minus. At the same time the regional market fashion retail is now under development. Retailers pace of expansion will depend on the emergence of high-quality projects. Retailers are already developing in the region, but only the appearance of modern facilities will ask them to speed up the pace. Is consolidation of the strong and weakening the weak players, the expansion of retail space required to 150-200 m<sup>2</sup> to 600 m<sup>2</sup> -800".

In general, the Kazakh market most franchises represented in the sale of fashionable clothes, shoes and accessories of famous brands (35%), services (30%), food service franchises (15%), various retail (12%), and others.

The leading players in the apparel market are companies Slradivarius, Marks & Spencer, Zara and Mango. Global giants such as Zara, Mango using the crisis to expand their geographical presence in the market. Also, despite the difficulties in 2018,

in the Republic of Kazakhstan continue to receive new international brands, such as Op & Op, Tsumori Chisato, Brums, Original Marines, Rocco P., Intersport Run & Fit and others. A number of players have stopped growing, but not reduced the number of stores - Bcfrc, O'stin, Vaop, Love Republic, Modis, Sportmaster, Sela.

You must mention about domestic garment manufacturers. We give a brief description of known Kazakhstani franchises in the field of clothing.

Author's House of Fashion was founded Kuralai Nurkadilova Kuralaj in 1994 in Almaty. The main area of work is tailoring and production of clothing and accessories.

Since 2006, opening a store in Astana, Atyrau, Aktau, Shymkent. From foreign countries stores in Moscow, Paris, Dusseldorf, Budapest, New York, Toronto and Milan. Part of the shops are open for the franchise, and some - partnership projects. Today sold 9 franchises. Since 2018 Kuralai Inc. It plans to produce mass-market clothes together with the Russian brand Bezko. Data on the cost and conditions for obtaining a franchise are negotiated individually.

Very successful and Kazakhstan brand Mimioriki. Mimioriki - Kazakhstan's first brand of clothing for children from 0 to 9 years. The brand launched in 2009. Clothing designed and sewn in Kazakhstan, factories Textiline LLP. The brand's founder - Director General Apenko Inna Sergeevna.

Kazakhstan has opened 14 stores - 3 own and 11 under franchise. Also on the open franchise stores in Novokuznetsk (Russia), in Kiev and Donetsk (Ukraine).

Thus, we can conclude that franchising in retail is firmly in the component of Kazakhstan's business, it is an indispensable attribute of many companies. In the press there is a range of materials covering the franchise. Increased interest in the sector from the commercial and financial sector. There is a number of businesses, which consist of brokerage franchise, which is indicative of the sector's profitability. Experts predict that in 2018 in our fashion retail market will not lower the number of brands than in the 2017th. In many ways, the experts promise a large-scale expansion of Russian brands.

Prospects for the development of franchising in Kazakhstan are largely related to government measures to support it.

State support for franchising according to world experience is inseparable from supporting entrepreneurship as a whole. Those all franchise incentive programs are analogies of programs for the development of small and medium-sized businesses. This is logical, since franchising is an integral part of entrepreneurship and must operate in the entrepreneurial field.

If a favorable atmosphere for the development of entrepreneurship is created in the country, then franchising will also develop. Of course, it cannot fail to note some nuances that are of much importance for the development of franchising: for example, such nuances as the protection of intellectual property, market transparency, tax culture, international standards and business mentality among businessmen.

But the franchise market, like any open market, is subject to the laws of supply and demand. The largest consumer market is the USA, it is not surprising that the USA is the flagship of franchising. If there is an affordable consumer market, then franchising will not need support, it will develop according to the law of supply and demand. In fact, according to world experience, franchising first developed, and then laws and support for franchising itself appeared. A vivid example is China, where IP protection standards are overshadowed, and the law on franchising appeared in 1997, however, the first franchise point appeared back in the late 1980s, much earlier than the legal regulation in the country. But one should not underestimate the role of state support in the development of franchising. Realizing the importance of franchising for the development of civilized entrepreneurship, state institutions tend to create conditions for franchising. This can be seen most clearly in the United States. For example, it is the creation of the Franchising Law, and in particular the provision on the mandatory disclosure of pre-sale information by the franchisor, that the number of fraudulent franchising schemes in the United States must drastically decrease. Thanks to the state, the program "franchising for veterans and pensioners" in the SAS is successfully developing : the program allows pensioners to use their own

accumulated funds in the pension fund to finance the purchase of the franchise. The State Corporation OPIC in the US stimulates the export of American franchises around the world.

There are many different state programs for the development of franchising, not only in the US, but also in Europe and Asia.

It is interesting to note the state program of China to stimulate franchising, which provides for the mandatory participation of Chinese entrepreneurs in all franchise projects with foreign participation. Thanks to such a program in China, tens of thousands of franchising points have been created with the participation of local entrepreneurs. As a vivid example of the result of this program, we can note the joint program of Kodak Company and the state bank of China, as a result of which thousands of enterprises were created throughout the country under the trademark "Kodak photo express".

Interesting experience of Malaysia in the development of franchising. Due to the low financial capacity of local entrepreneurship, the numerous proposals of foreign franchisers remained unrealized. The Ministry of Enterprise Development of Malaysia together with the Franchising Development Service has developed a program to identify potential franchisees, as well as a mechanism for advisory and financial support for these franchisees themselves. As a result of this initiative, a large number of franchise enterprises have appeared in the country.

As can be seen from the above, state support for supporting franchising is very important in the development of the franchising market.

It is in this light that the most important for the development of domestic franchising is the creation of a business support program for the "Road Map-2020" (abridged RM-2020). Despite the fact that there are no measures for developing franchising in RM -2020, nevertheless, the importance of the program in the development of a quality entrepreneurial market, which is fertile soil for the development of franchising, is very high. To date, this is the most ambitious and diversified program for the development of entrepreneurship.

The main three areas of RM -2020, which are based on measures to support entrepreneurship, are as follows:

- Support for new business initiatives;
- Improvement of the business sector;
- Support for export-oriented industries.

Improvement of entrepreneurship through financial support is an effective and tested tool for improving the business environment. According to the analysis of the world experience of franchising, it is the financing of franchising transactions that facilitated the development of the export of national brands to international markets. In this vein, it is appropriate to recall the experience of a major US corporation for the financing of OPIC exports, thanks to which many American franchise brands opened their branded points around the world. Support for export-oriented production is very important for the development of franchising, since the export of Kazakhstani products, and therefore of Kazakh brands, will contribute to the so-called. "Internationalization of local brands", which contributes to the export of national franchises.

The RM -2020 program is important in creating an enabling environment for the development of franchising, but the seeds of franchising are based not only on financial recharge, but also on knowledge, on so-called "franchising". "Know-How in Management": knowledge management that allows you to manage your finances correctly and to create reasoned and pragmatic franchising systems. Here it should be noted the software tools RM -2020, prescribed in the first direction of the program, namely:

- provision of consulting and marketing services;
- services on adjustment of working processes, management of enterprises;
- marketing research on entering the market with a specific type of products (services);
- promotion (branding) and promotion of products (services), etc. ;
- consultations on the creation and optimization of the current business;

- consultations on conducting business in foreign markets and on participation in competitions on state purchases.

The market of consulting services in Kazakhstan is often represented by expensive, inaccessible, and most importantly - absolutely unnecessary entrepreneurs, consulting services. In this case, consulting itself is provided by people who sometimes do not have practical experience. It should be noted that among this mass of useless services, which are also not so cheap and in most cases not available for small businesses, one can also find quality consulting provided by professionals. But most often this is an exception than the rule. But this does not mean that entrepreneurship does not need consulting, on the contrary, today's entrepreneur feels the need for professional consulting. Some entrepreneurs receive information on the Internet from foreign resources, the other part - allows organizational processes to take place on their own. But consulting is necessary for each enterprise, and thanks to RM-2020, entrepreneurs will be able to get centralized quality consulting. RM-2020 consulting tools can give impetus to the development of the quality consulting market in Kazakhstan. Of course, it is very important to conduct a qualitative assessment of the provided consulting materials.

Among the consulting services of the RM-2020 from the point of view of developing franchising it is interesting to pay attention to such a service as promotion (branding) and promotion of products (services). Branding is a constituent part of franchising, without which one of the supports of the franchise system efficiency is lost. The whole history of global franchising is the history of brands. Unfortunately, domestic entrepreneurs do not pay attention to simple registration of a trademark. And if the experts of the RM-2020 program pay attention to branding of the company's trademarks, the enterprises will be interested in developing their company's brand, which may have an effect on the development of the franchise market through an increase in the number of transactions with the lease of the brand.

The financial agent of the program is the Damu Foundation. Damu Foundation, as mentioned earlier, is a sponsor of initiatives to develop Kazakhstan's

franchising. The events held by the fund helped many franchisors and franchisees, as well as Kazakh entrepreneurs seeking information about franchising. But in the role of financial agent of such a large-scale program as DC-2020, the value of the fund as an institution for the development of franchising is multiplied.

According to the data of 2017-year segment of "mass market brands" have become very popular with new groups of buyers who previously preferred retailers higher segments. At the same time, taking into account the negative external factors, popular international networks, including Black Star Wear, manage to control the growth of prices by reducing rental costs and obtaining the most favorable commercial conditions in shopping centers. The decrease in demand associated with a decrease in the purchasing power of the population is temporary, so the "Happy retail" LLP's marketing strategy should be to keep loyal customers more profitable offers for the price and model range that only the "Black Star Wear" brand can offer.

So fashion trends spring-summer 2018 years should be: multi-layered skirts of transparent tulle, chiffon and kapron; wide red strip or very small blue; red and synthetic combination of clothing; ultra-short skirts and voluminous jackets; Blouses with a big bow at the throat, drapery from sequins; tops with open shoulders; Skirts with lush flounces, from delicate tulle or with elegant pleating; sitch in a pattern of dresses, sarafans, shirts and summer blouses; presence of grunge mesh and much more. The use of fashion trends in the new light clothing collection will allow the trading company to provide competitive advantages, reorienting buyers of fashionable expensive boutiques that follow the trend of fashion podiums to the mid-price segment, whose clothing quality can not be inferior to the luxury segment.

In connection with the crisis in the economy, retailers leave the market, whose products are aimed at a narrow group of the population. In connection with this, the next activity of the marketing plan should be the expansion of the accompanying assortment of goods, which will increase the amount of the average check. It can be a collection of summer swimwear 2018, a collection I makeup, sunscreens, skin, jewelry, children's costumes for the holidays, themed t-shirts with print, including

manufactured to order.

It is assumed that, according to the marketing agency "Discovery Research Group ", the category "Clothes and shoes "will continue to occupy a leading position in terms of sales, whose value in 2019 will be 24.2 billion tenge.

## **5 Shortcomings/limitations**

Franchising is a popular form of entrepreneurial activity and systematic duplication of successful models of commercial and non-commercial enterprises. Unity in diversity - this is how you can characterize Franchising: Uniform brand, product and service on different continents. The world is moving towards globalization, and its main instrument mega brands of franchising. Franchising is the business of the future. According to forecasts of experts of The Nesa in the XXI century, more than 50% of the world's business will work according to the franchising system, the second half will be its supplier. Already today, one of the dictators of the level of development of the country's economy is the state of franchising in this country. Therefore, many countries pay great attention to the development of franchising through the adoption of special laws regulating these relations, implement development and support programs, and provide special benefits to market participants.

Franchising is an effective tool in the development of private entrepreneurship, - of the population, solving social problems, higher transparency of business and an increase in the taxable base. Therefore, both at the state and non-state the popularization of franchising as an ideal form of development of the company is manifested in various initiatives.

In Kazakhstan, the law on franchising was adopted on June 24, 2002. It is a question of the Law of the Republic of Kazakhstan "On complex entrepreneurial license (franchise g) ", where the term" franchising "is sufficiently adequate legal definition - complex business maternity license. Accordingly, the franchisee is a complex licensee - a party under a contract of a complex entrepreneurial license, a legal user of a complex of exclusive rights of the licensor who uses this complex for a pre activities.

Complex of exclusive rights (licensing complex) - rights to a number of intellectual property objects (trademark, trade name, service, patent, undisclosed

information, including secrets of production (know-how)). This definition can be close to the international term franchise. Nevertheless, in the Kazakh business vocabulary, the use of a common international practice native term of franchising.

With the evolution of business and the economy as a whole, change and types of business relations, including franchising. There are new forms of franchising enterprises. But the main classical types, on the foundation of which the modern franchise model is built, remain unchanged - it is a distributive (commercial) franchise, (which is also called tradition on-line) and franchising business format (or business franchise chasing).

Virtually every type of business can be turned into franchising. The International Franchise Association allocates 70 branches of the economy, in which there is an opportunity to apply different types of franchising. Franchising systems take different forms and are capable of uniting different participants in these relations. However, depending on the chosen form of franchising, there are certain advantages and disadvantages. If we take into account the specifics of franchising, we should note the possibility of selecting by the subjects of a particular type of franchising, which is the most optimal for the form of their economic activities, the place they occupy in a specific market for goods and services, and also the stability of the franchisee itself.

In Kazakhstan, the franchising sector employs middle and young people who have already been successful entrepreneurs before buying a franchise. For them, franchising is not a new sector, since people in the course of its education or experience, franchising has carefully studied and analyzed by this category. Kazakhstan's average franchisee is businessman who decided to buy races a twisted brand in addition to the portfolio of its other brands. If we talk about the labor market franchising sector, then obviously the absence of the most formed market. In this regard, the problem of shortage of personnel or unemployment is not so relevant in the sector of franchising, in comparison with other sectors. But with the development of the franchising sector, the demand for franchising specialists is also

growing: these are managers, French consultants chaising, specialists in the compilation of franchise packages, intellectual property lawyers, employees of franchising points, etc.

The employees of the franchising networks a priori high demand, higher than to employees of non-franchising companies. the basis of franchising is a successful experience, high cost of intangible assets, reputation of brand image. Capitalization of the brand also increases the capitalization of the staff. Accordingly, the salary of a co- worker of a franchise company is higher than the earnings of the same employee - chaising company.

Franchising in retail component firmly in Kazakhstan This is an indispensable attribute of the development of many companies. A number of materials appear in the press, I cover franchising. Increased interest in the commercial sector financial and financial sectors. There are a number of companies whose activity consists of franchising bro This is an indicator of the profitability of the sector. According to experts' forecasts, in 2018 at our fashion retail the market will come not less number of brands than in 2017th. In many ways, experts promise a large-scale expansion of Russian brands.

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## APPENDIX 1

### Duties of the franchisor and the franchisee

| duties of the franchisor                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Obligations of the franchisee                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <ul style="list-style-type: none"> <li>– Installation of all payments. The franchisor must install all payments related to the franchise system. This includes an initial payment, regularly evaluate the service fee for the use of the trademark, advertising fund payments and other fees offered by the franchisor extras. These payments and payment obligations stipulated in the franchise agreement.</li> <li>– Transfer of business and technical information. The franchisor has created a successful business concept, which is based on technical information. For the success of the franchise companies that knowledge must be brought to the franchisee through training and support.</li> <li>– Documentation of all rules and regulations. Franchisor by developing successful business concept is to standardize all procedures and regulations that have made it a successful business. After standardization of the rules and procedures should be documented. With this documentation franchisor can then provide each franchisee practical instruction in business. This manual should be the same for the entire franchise system, which guarantees high quality of operations throughout the system.</li> <li>– Quality control. The franchisor must maintain the reputation of the franchise system. To successfully do this, it needs quality control system, which should apply to all current franchisees in the system. This provides</li> </ul> | <ul style="list-style-type: none"> <li>– The payment of the initial premium. As stipulated in the agreement, the franchisee must pay an initial payment for the franchise. The agreement also stipulates other required payments.</li> <li>– The payment of the service fee. The franchisee must pay all service fees assigned to the franchisor, in the terms specified by it. Terms of payment terms stipulated in the franchise agreement.</li> <li>– Other payments. The franchisor may require the franchisee, so that it has accepted the obligations and other payments that support the franchise system. These payments may include periodic payments to the general advertising and obligations of the original purchase of the equipment fund, furniture, equipment and signage. These payments are specified in the franchise agreement and must be paid on time.</li> <li>– Use of the trademark. Franchisee, in the performance of a franchise agreement, agrees to use the franchise trademark and / or brendneym. This use is limited and must be conducted in a form satisfactory to the franchisor. Failure to comply with this paragraph is considered as a violation of the franchise agreement and may lead to the breakdown of relationships.</li> <li>– Adherence to industry standards. Franchisees, buying a franchise, agrees to comply with industry standards, laden with the franchisor. These standards are designed to support</li> </ul> |

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| <p>quality control method for the evaluation of the franchisee.</p> <ul style="list-style-type: none"> <li>– Providing ongoing support. The franchisor should provide ongoing support to each</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>consistency among existing franchisees. Inability to follow these standards can lead to a break with the franchisor of the contract.</p> <ul style="list-style-type: none"> <li>– Following the franchisor program.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p>franchisees, including raising.</p> <ul style="list-style-type: none"> <li>– Qualification, management support and operational services on demand.</li> <li>– Conclusion and support of exclusive contracts to supply. At the franchisor have the opportunity to negotiate favorable terms of supply with the largest suppliers of raw materials and equipment (eg, flour for bakeries or kitchens for specialized shops). These special discounts allow franchisees to significantly reduce their costs.</li> <li>– Clarification of the schedule. The franchisor is solely responsible for the production of competitive conditions for those franchisees who want to own more than one franchise. These conditions are dependent on the success of a particular franchisee and the franchisor should be monitored to ensure that the expansion of the franchise system was due to successful franchisees.</li> <li>– Providing a secure area. Franchisor when signing the franchise agreement must stipulate a protected territory in which the franchisee will operate. This is done to ensure that the agreed territory will not be open to other franchisees of the same brand.</li> <li>– Determination of breaking the terms and continue the contract. Franchisor in the franchise agreement specifies provisions for severance of relations, as well as developing the conditions to continue the contract with the franchisee. These provisions should</li> </ul> | <ul style="list-style-type: none"> <li>– The franchisee must follow all the requirements of the franchise program.</li> <li>– These requirements are the condition of uniformity of services provided in the entire franchise system. Inability to follow these standards can lead to a break with the franchisor of the contract.</li> <li>– Before you sign the franchise agreement is essential that potential franchisees fully understand the basics of franchising. Both sides committed themselves upon signing the contract. Responsibilities in each case may be different, but they all have in common is that they are used for the successful growth of the franchise system.</li> </ul> |

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| <p>be standardized and applied equally throughout the franchise system.</p> <p>– Most of the franchisor's obligations stipulated in the franchise agreement. Franchise agreement also stipulates the responsibilities of the franchisee.</p> |  |
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## APPENDIX 2

### Advantages and disadvantages of franchising

|                    | Benefits of franchising                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | disadvantages of franchising                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| for the franchisor | <ul style="list-style-type: none"> <li>– increase the number of trading companies with minimum investment, as franchisee also invests its equity stake in the business;</li> <li>– increase the income (profit) through the efforts of franchisee. Since franchisor is the owner of the enterprise, it will make every effort to increase the profitability of the business;</li> <li>– reduce production costs and handling per unit of turnover, as franchisee as an entrepreneur himself covers all the expenses of maintaining their commercial enterprise (staff salaries, rent.);</li> <li>– expand the network of distribution of the goods or services by linking franchisee to the franchisor as franchisee obliged to buy him the necessary equipment from the franchisor or through it.</li> </ul> | <ul style="list-style-type: none"> <li>– the complexity of the control franchisee activity as franchisee is not an employee of the franchisor and the franchisor directly it does not control;</li> <li>– the possibility of losing his good name and reputation because of poor performance franchisee;</li> <li>– danger of obtaining false information and accounting of franchisee;</li> <li>– the possibility of opposing goals franchisee that significantly affects the business. After all, the franchisor can terminate the agreement with franchisee until he violated the terms of the contract.</li> </ul> |

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| for franchisee | <ul style="list-style-type: none"> <li>– become self-employed;</li> <li>– to conduct its business under the recognized trademark;</li> <li>– the use of previously tested forms of entrepreneurship;</li> <li>– joint advertising;</li> <li>– training and assistance from the franchisor;</li> <li>– acquiring many kinds of licensing business at relatively low prices;</li> <li>– to finance part of the investment and reap the profits.</li> </ul> | <ul style="list-style-type: none"> <li>– control by the franchisor, which could leave little franchisee opportunities for self-expression in their business;</li> <li>– danger of losing its reputation for poor performance;</li> <li>– danger franchisor policy changes for the worse for franchisee side, for example when changing franchises;</li> <li>– the high cost of services of the franchisor (the purchase of equipment that franchisee obliged to buy only from the franchisor, while from another retailer, it can be a lot cheaper).</li> </ul> |
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