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## Problems and prospects of franchising development in Russia Tomsk Polytechnic University

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### Abstract

The article describes the features of the development of franchising in Russia. Franchising has a number of advantages and it is a perspective form of interaction between small and large businesses. However, in taking a decision to contract with the franchise network, in addition to understanding the forms of doing business, the advantages of the system, you should also take into account that the franchise system is associated with some problems. The paper describes the main problems hindering of franchising development in Russia. It also considers the solutions of this problems and perspectives of franchising development in the future. For development of franchising in Russia there are enough opportunities and to implement them it is necessary to create certain conditions.

*Keywords:* Franchising, Prospects of franchising, Russian Association of Development of Franchising (RADF), Russian Association of Franchising (RAF).

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### 1. Introduction

The situation that prevailed in the market currently allows to claim with confidence that in the present period there is a high growth of franchise technologies in the Russia. Highly effective formation of franchising in the Russian market is promoted by the created infrastructure, as carrying out promotion of franchising as an effective way to do business, and providing consultation of subjects of franchising. The major role in performance of above-mentioned functions is played by the Russian Association of Development of Franchising (RADF) and the Russian Association of Franchising (RAF). They annually hold various exhibitions, conferences and seminars in order to create the favorable information environment which will promote the Russian franchising.[6]

### 2. Discussion

There are a number of issues which slow down development of franchising in Russia. The main problems can be grouped according to their causes: economic, organizational and legal and socio-psychological (Fig. 1).

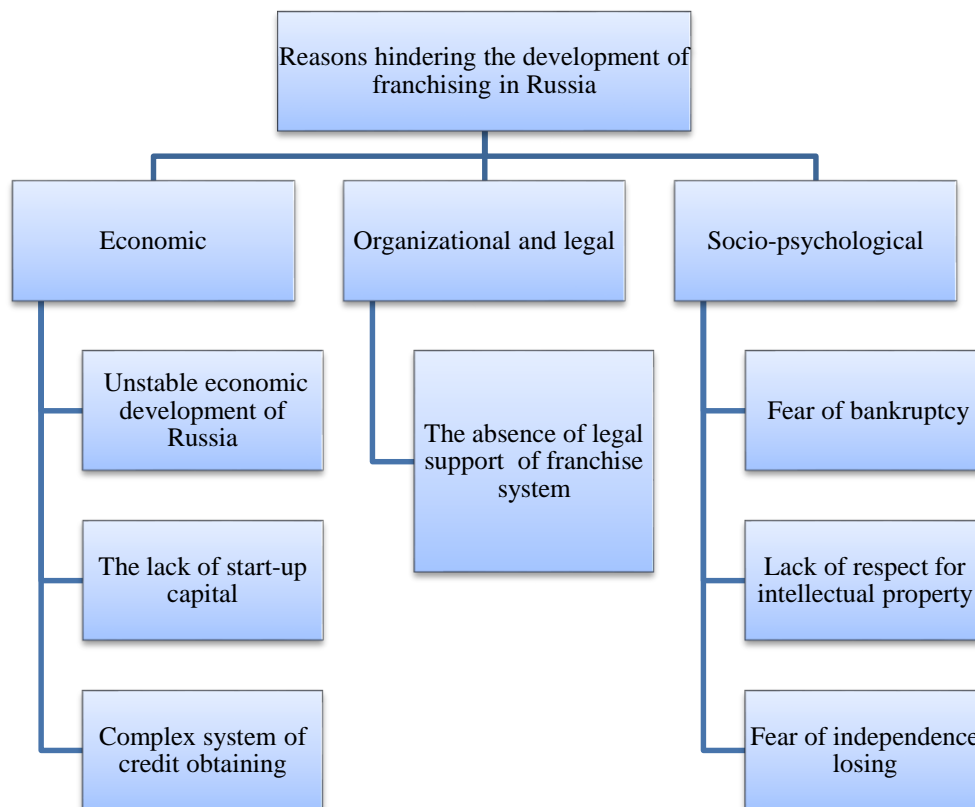


Fig. 1. The main problems hindering the development of franchising in Russia.

These problems are closely related to both problems: from an economic and legal point of view. Entering the franchise system, the franchisee suffers a number of fears, which are caused by both economic and legal aspects. The main is a fear bankruptcy. It can be caused by incorrect actions of the franchiser. Just legal basis has to provide with tranquility of the franchisee as he /she is the owner of the firm, the legal entity who has to be confirmed with necessary legal aspects.[1,3]

The most important socio-psychological aspect of the franchise system is traditional for our country and for our people disrespect for intellectual property. The solution of this problem requires a combination of economic and legal influences that will be able to make inefficient unauthorized usage of someone else's intellectual property.

Also education which is the mechanism of permission of socio-psychological problems, takes a special place among the main problems of franchising. This problem is caused by the fact that small businesses have weak training in franchising. The creation of a network of training and advice centers on franchising and it is only a solution of economic problems of the system. Moreover, problems in education in the sphere of franchising will promote expansion of knowledge of the franchisee in the field of economy and the right.

Solutions of economic, socio-psychological, organizational legal and educational problems of franchising are possible only in a complex as the solution of one problem causes the necessity to solve the others.

It is important to emphasize that the development of the Russian franchise has enough opportunities and prospects. However, implementation of opportunities requires creation of certain conditions:

- There is a need for a legislative initiative on the development of the law on franchising and making corresponding changes in related laws and regulations in Russia.
- There is also a need for the inclusion in the government program for support of small business for franchising development.
- An important point is the creation of a system of tax benefits for companies, franchisees, especially at the initial stage of development of the franchise system.
- It is necessary to create a network of training and advice centers on franchising, not only in the center, but throughout Russia.

Prospects of franchising development in Russia are the most favorable at the present time. Today the country is a world leader in the growth in the number of franchise companies: for the last three years their number have increased up to 98%. Despite the slowdown of the Russian economy, the 2013 was a year of great prosperity for the franchise: the number of franchise businesses in Russia increased by 30%. Russia surpassed Germany by the number of franchised outlets in the past year (74,6% 72.7 thousand respectively). However, the Russian state statistical service still does not measure the franchise as a separate business. The data presented in this paper is the result of extensive research, for the first time in Russian practice carried out by the portal Franshiza.ru through a survey of market players.[5]

The turnover of the franchise market in Russia does not have large share in the country's GDP, for example, in the United States (the contribution of franchising in the U.S. - 10%). But last year this figure has increased significantly and exceeded 3.5% of GDP. In General we can distinguish seven main factors, which determine the dynamics of the Russian franchising in 2013:

1. Legitimacy. In Russian legal system the essence of the franchise relationship reflects the agreement of commercial concession.
2. New financial instruments. The financial sector see franchising as a growth point in the economy last year. Because it became a mass-market banking products intentionally adapted for the needs of the franchisee.[4] We are talking about the loan programs on the opening of the franchise. For example, «Sberbank» has been implementing the program "Business-start" to open their business by franchising program.
3. The increase in the number of retail space. The emergence of new retail space, especially high-quality shopping centers, always contributed to the growth of franchising.
4. The emergence of franchises from regions of Russia. Franchising market in 2013 was filled with new concepts that emerged and spread in the regions, and now began to claim a Federal status.
5. Services trends. The retail trade has historically been the basis for the Russian franchising. Share trading franchises operating in the market, always significantly exceeded the half. However, in the last few years there has been a fracture. By the end of 2013, the total share of food and non-food retail in the total mass of franchise projects amounted to 47%. [2] This happened primarily due to the growth of franchises in the services business and population.
6. Conversion franchising. The conversion franchising was actively used In 2013. This is when the owner of the existing companies of similar profile is attached to the network of the franchisor and begins to operate under its trade mark.
7. Foreign concept. The distribution of the Russian franchising happened thanks to the arrival on the market of international players.

### 3. Conclusion

Summarizing the analysis of problems and prospects of franchising, we can conclude that for the development of franchising in Russia there are enough opportunities. However, to implement them it is necessary to create certain conditions.

It is necessary to create legislative initiative to develop a law on franchising and making corresponding changes in related laws and regulations. Also it is necessary to include in the government program the support small business in franchising. It is important to create a system of tax incentives for the franchisee, especially at the initial stage of development of the franchising system. It is advisable to provide the possibility of applying the franchisee of a simplified accounting system and to create a network of training and counseling franchising centers throughout Russia.

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