

УДК 339.9.012

L.A.Krasilnikova (2nd year, I.R. Dept), A.L.Riabova, senior lecturer

## FRANCHISING'S PECULIARITIES IN RUSSIA

The term “franchising” is becoming more familiar in Russia, but what does it really mean to the potential business owner?

A franchise is a license that an established business (the franchisor) grants to a new business owner (the franchisee) to use the company's brand name and it's proven systems and procedures.

Every franchisee operates his/her business within the franchisor's quality standards so that customers experience consistency no matter where they buy the franchisee's products or services. This is the strength of a brand name – the customer feels secure when making a purchase.

Some years ago even prominent Russian business people were not aware of the existence of the term “franchising”.

But now, according to experts, there are approximately 200 franchising firms operating in our country. Over a dozen major foreign franchising companies have established themselves in Russia as well as a few local franchise enterprises: Doka Pizza, the first Russian franchisor, sold equipment for bakeries and pizza cafes; Zolotoy Tsyplyonok, Russkoye Bistro; Russkaya Trapeza and Alcor have been involved in the food processing industry as well [1].

Franchising as a relatively new concept in Russia began to develop at the beginning of 1990s, though legal regulation of franchising, or “commercial concessions” initiated only 8 years ago, in March of 1996.

There is no law in Russia that recognize the concept of franchising except for Chapter 54 of the Civil Code which is dedicated to franchising, or, “commercial concession”. The Chapter permits the franchisee to use the complex of the exclusive rights, business reputation and commercial experience of the franchisor in a manner defined by the contract, e.g. geographical territory and a specific activity, such as sales, trade business, rendering services, and production of goods [2].

Local experts have identified two strategies currently in use in the franchise industry in Russia. First, foreign franchising firms are establishing independent operations here. Their trademarks are recognizable and local businesses might be interested in buying these trademarks. According to the Russian Franchising Association, about 24 international franchising networks are present now in the Russian market, including the biggest ones, Coca Cola, McDonald's and Baskin Robbins. Second, the development of local, Russian franchising chains.

Such franchising chains, they are definitely less expensive than the acquisition of foreign trademarks and are currently successful. Experts estimate that there is a vast market in Russia for franchising in the fast food, dry cleaning and laundry, services, hospitality, and retail trade sectors of the market. The other promising sector is so called technology franchising, especially in food industry. Big dairy producers, such as Ehermann, Danone, WimmBillDann have already started the practice of technology transfer to the local milk producers [3].

Franchising remains to be a comparatively new phenomenon for the Russian business community, and there was no prior experience available in this sphere, that is why we could discover some handicaps in with system. There are several reasons for this:

1. Franchising, widely used in the United States and Europe, is just beginning to emerge in Russia.

2. Russia is transforming into a market economy country. There are a number of problems to overcome along the way, including the reconstruction of the microeconomic, financial and political structures – entire Russian economy.

3. Political risk. Government authorities have little experience in the regulation of franchising.

#### 4. Many Russian firms are in a poor financial state

In spite of this the growth of franchising in Russia is inevitable, because of the inescapable logic of the underlying concept. Franchising clearly offers aspiring, new business owners the best possible chance of succeeding with the least amount of risk.

Franchising is evolving. There will be even greater opportunities for wealth creation among both franchisees and franchisors as this evolution progresses. New franchises will be developed while the existing systems become more fortified and continue to grow. Today, there are greater opportunities for wealth creation among both franchisees and franchisors than ever before.

The future of franchising is as bright as ever and if you are ready take the step and go into business.

#### LITERATURE:

1. <http://www.a-z.ru/raf/raf/ustav.htm>
2. <http://www.usaid.gov/business/>
3. <http://www.bisnis.doc.gov/bisnis/isa/9707FRAN.HTM>