EXPERIENCE OF ADVANCED FOREIGN COUNTRIES IN FRANCHISING DEVELOPMENT

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Abstract: *This article examines the experience of advanced foreign countries in the development of franchising as a promising business model. The study analyzes the sectoral structure, dynamics, and key trends of franchising across European countries, including France, Germany, the United Kingdom, the Czech Republic, Hungary, Poland, Bulgaria, and Denmark. The role of the European Franchise Federation (EFF) in promoting and regulating franchise networks is discussed. Particular attention is given to the factors influencing the attractiveness of national markets for foreign franchisors, including legislative frameworks, labor market conditions, consumer purchasing power, and cultural specificities. The article also presents data from the FRANDATA Corporation and the International Franchise Association on the global distribution of franchise systems, highlighting the dominance of fast-food, retail, and service sectors.*

Keywords: *franchising, franchise network, franchisor, franchisee, European Franchise Federation, master franchise, sectoral structure, business model, foreign experience, Uzbekistan.*

Europeans have recognized franchising as a promising model for business development. Since 2002, activity in forming and promoting franchise networks has been observed across virtually the entire European continent. Successful franchising practices and the existence of a unified market in Europe predict a bright future for the continued expansion of franchising in Europe.

Although the first franchising companies appeared in Europe as early as the 19th century, franchising on the European continent gained widespread development only after the successful experience of applying this business model in the United States. It is important to note that approximately 60% of the European Union economy is driven by franchising. At the same time, about 90% of such businesses in the EU grow through specific targeted loans.

The structure of franchise networks also varies considerably (Table 1).

Table 1.

Sector Structure of Franchising in Europe, 2018

Sector	Share (%)
Full-service restaurants	20%
Retail trade (including food products)	15%
Services (sports and tourism)	12%

Automotive transportation and maintenance	8%
Construction	7%
Other sectors	38%

Source: Compiled by the author based on IHS Markit (International Economic Analysis and Forecasting Firm) data.

The franchising system at the European level is represented and promoted by the European Franchise Federation (EFF). The Federation was established as a non-profit international association and was founded in 1972. A 2016 European franchising review conducted by the European Franchise Federation showed that there were 13,800 franchise brands operating in 21 countries across Europe.

According to the FRANDATA Corporation, the most widespread economic sectors in franchising today are fast-food establishments, which account for approximately 20% of the worldwide total of franchise operations. Retail trade, which includes food products, accounts for 15%, while the service sector, which includes sports and tourism, accounts for 12%. Additionally, automotive transportation and maintenance accounts for 8%, and construction takes 7%. Furthermore, approximately 50% of all franchise networks worldwide operate in the trade sector, where fast food, restaurants, and food product stores play a leading role. On average, about 80% of establishments belong to the world's largest fast-food operators.

Table 2.

Dynamics of the Number of Franchisors in Europe, 2018

Country	Franchisors	Revenue (bn EUR)	EU Market Share
France	1,900	55.1	45%
Germany	1,300	92.0	—
United Kingdom	1,089	17.2	—
Czech Republic	260	—	—
Denmark	250	—	—
Bulgaria	198	—	—
Poland	51	—	—

Source: Compiled by the author based on IHS Markit data.

At the same time, 33% of the total number of franchise brands in Europe are of American origin. The United Kingdom, Scandinavian countries, and new EU member states are the favorite markets for American franchisors. Another portion of franchise brands operating in Europe consists of internal brands founded within Europe. As franchising develops in Europe, a clear trend of steady growth in both franchisors and franchisees is visible.

Among European countries, France holds the leading position in franchising proliferation. It covers 45% of the entire European franchising market. There are more than 1,900 franchisors and 71,580 franchisees, with annual revenue of 55.1 billion euros.

A distinctive feature of the French franchising market is that it is not attractive for foreign franchising systems to enter, even those as aggressive in marketing as American ones. This is because France has quite burdensome laws that are easy to get entangled in. They establish a labor-intensive procedure for franchise registration. France also has a complex procedure for dismissing employees, which requires paying high severance benefits, making France an unfavorable environment for the effective development of franchising by foreign franchisors.

Germany. The favorable situation in the franchising market contributes to the development of foreign franchises in Germany. In 2016, there were 1,300 franchise networks and 118,000 franchisees, with annual revenue of 92 billion euros. More than 686,000 specialists are directly employed in the franchising sector. French brands such as Kookai, Promod, and Pimkie have been developing in the German market for a long time. In percentage terms, services account for 50% of the entire German franchising market, restaurants and hotels for 21%, and trade for 29%. Today, the German economy ranks 4th in the world, with economic growth at 0.4%. Furthermore, despite the current decline in consumer purchasing power and rising prices for basic food products, 82,000 residents represent potential for the development of franchising. Another notable factor was the government's increase of the value-added tax by 3% in January 2007.

The United Kingdom ranks third in Europe in terms of the number of franchise networks. There are approximately 1,089 franchisors and 44,200 franchisees, with annual sales of 17.2 billion euros and more than 621,000 specialists directly employed in the sector. Franchising in the UK represents an ideal business system, as demonstrated by 92% of franchisees who consider franchising a highly profitable form of business organization. In 1977, by decision of British franchise companies, the British Franchise Association (BFA) was established, which was the first in history to provide clear definitions of the franchise concept as a control license issued by one entity (the franchisor) to another (the franchisee).

The most rapidly developing franchising sectors in the United Kingdom include fast food, spare parts supply, hotels, insurance agencies, quick-service beauty salons, and roofing services. However, the British tendency toward detailed analysis of business concepts has produced a rather conservative attitude toward franchising and skepticism in choosing franchises, which has affected the development dynamics of this form of business organization.

This attitude is illustrated by the example of the Signarama company, which in 1997 opened franchise outlets in Birmingham (United Kingdom) and Melbourne (Australia). While the number of stores opened through franchise sales in Australia reached 85, in Britain the number of franchises reached approximately 45.

Table 3.

Dynamics of the Number of Franchisees in Europe, 2018

Country	No. of Franchisees	Revenue (bn EUR)
France	71,580	55.1
Germany	118,000	92.0
United Kingdom	44,200	17.2
Hungary	20,000	3.3
Czech Republic	5,500	—
Bulgaria	2,954	—
Poland	70	—

Source: Compiled by the author based on IHS Markit data.

Denmark is known for having a quite limited market for franchise networks. However, it is a favorable country for applying the franchising system, which is attributed to easy access to Scandinavian countries. In 2016, the Danish franchising system had 250 franchise enterprises, with 55,000 jobs in this sector. This can be explained by the existence of different economic systems, national traditions, and varying degrees of state integration into the European and global economies.

In this regard, studying the demographic and economic conditions of countries whose markets a franchisor intends to enter through the Internet cannot provide complete and comprehensive information for preparing a business plan. Cultural nuances and traditions can only be studied over many years of personal interaction and actual visits to the intended countries.

The liberalization of economies in Central and Southeastern European countries, and their aspiration to become part of an organized commercial system based on personal investment, encourage them to choose franchising and independent business. The absolute leaders in implementing franchising systems are the Czech Republic and Hungary. This type of activity is also developing successfully in the markets of Poland, Bulgaria, Romania, and Croatia.

The Czech Republic has 260 franchisors and 5,500 franchisees, and it should be noted that it is at the beginning of a promising development of franchising. The food and apparel industries are the most attractive for franchising. Due to high income and relatively quick return on investment costs, the most preferable zones for franchising are areas where the population has high purchasing power.

In a short time, well-known companies from highly developed countries managed to penetrate the Czech market. On the other hand, Czech franchisors emerged, such as ETA (electrical appliances), Boty Roman Petr (footwear), Dobra Ajovna (tea production), Body Basics (cosmetics), and Rapid Service (cleaning services).

In Hungary, despite the fact that this method of organizing business is considered relatively new, there are already about 400 franchising systems with more than 20,000 franchisees. More than 65,000 people are employed in this sector, and the market volume reaches 3.3 billion euros. Most franchising entities operate in the fast-food sector, as well as in the apparel industry, photo services, copying, gas stations, hotels, postal services, auto services, real estate, tourism, rental, and distribution services.

Successful franchisors changed their approach to the Hungarian market by using sub-franchisors within the master franchise system, providing financing, lower franchise fees, and business success.

Franchising in Poland remains a relatively little-known area of business, although it first appeared here before World War II. Currently, more than 51 franchisors and 70 franchisees operate in Poland.

Bulgaria has become an excellent market for American and European franchisors. A stable political climate, strong economic growth, and a favorable legal environment provide opportunities that international businesses, including franchising, are now beginning to appreciate. Between 2010 and 2016, the number of international franchising systems in Bulgaria more than doubled. There are 198 franchisors and 2,954 franchisees. The first franchises and licenses in the country date back to the communist system era, with contracts signed in the 1970s with Hertz, Novotel, and Sheraton.

Today, franchising is present in many business areas, including beverages, cosmetics, education, fast food, hotels, and the real estate sector. For example, Policontact, a Bulgarian employment services company, and Narry, the country's largest restaurant chain, have more than 20 local and several international restaurants.

Despite the rapid development of franchising, the Bulgarian market continues to be unexplored and underutilized. Research conducted in Bulgaria by the American International Executive Service Corps (IESC) with the financial support of USAID indicates that businesses granted franchises in Bulgaria are likely to be very profitable, primarily due to relatively low real estate prices, low wages for both skilled and unskilled labor, and high market demand.

The most promising areas for franchising include: automobile sales and services, hotel and restaurant business, laundry, and dry cleaning. Good opportunities also exist for opening small markets, economy stores, and specialized retail outlets. Furthermore, promising directions include sales of fresh baked goods, confectionery, and opening optical salons.

Table 4.

Global Leaders in Franchising (Number of Franchisors at the Beginning of the 21st Century)

Country	Number of Franchisors
USA	2,000
South Korea	1,300

Canada	1,200
Brazil	1,000
Japan	1,000

Source: International Franchise Association data.

According to the International Franchise Association, at the beginning of the 21st century, there were 16,500 franchisors and 1.2 million franchisees worldwide. Countries such as the USA (2,000 franchisors), South Korea (1,300), Canada (1,200), Brazil (1,000), and Japan (1,000) are recognized as leaders in this field.

Today, more than 20,000 enterprises operate within the McDonald's franchise system worldwide. Currently, franchising is well-known and widespread throughout the world, and the number of franchise networks is growing rapidly.

In Uzbekistan, despite the existence of local franchisors and franchisees, franchising is not yet widespread. The most developed franchising relationships are those between local entrepreneurs and the 1C company (Russia), which develops software and automated accounting systems. According to information posted on the company's website, there are currently 23 partner organizations of the company in Uzbekistan, of which 7 are franchisees.

Currently, the fast food and retail sectors dominate the franchising market in Central and Southeastern Europe and are the most dynamically developing sectors. Furthermore, experts believe that there are still untapped reserves for the development of this business. The hotel industry has good prospects, especially in Southeastern European countries where tourism has been booming in recent years. This sector can also expand in rural areas, as interest in rural tourism continues to grow and infrastructure remains underdeveloped. Dry cleaning services can function dynamically in small towns. Franchising also has good development potential in the production of goods and services for children, various computer education programs, and children's entertainment.

However, there are a number of unfavorable factors restraining the growth of franchising systems in Eastern European countries. These include an inadequate legislative system, a shortage of domestic capital, limited access to credit, and relatively high country risk. Nevertheless, franchising in Central and Southeastern European countries represents a new industry that is developing at a fairly rapid pace.

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