

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

**Analysis of advantages and disadvantages of doing
franchise business in Kazakhstan**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Business Administration

Thesis title

Analysis of advantages and disadvantages of doing franchise business in Kazakhstan

Objectives of thesis

The aim of this study is the analysis of the beginning of commercial activity on franchising model and new business in the Kazakhstan business environment.

- to reveal the essence and concept of franchising;
- explore the types of franchising;
- to conduct a comparative analysis of environmental factors affecting companies open in the model of franchising and without;

Methodology

Main research methods: statistical analysis, survey, questioning, interviewing, historical, legal, etc.

- analysis of franchising development in Kazakhstan, influence of factors: horizontal to vertical analysis of statistical data. Dynamics of development of companies, government support, market conditions, etc.;
- comparative analysis of business risks at the opening of a new business franchise and without it in the Republic of Kazakhstan: survey and interviewing entrepreneurs who work on the franchise and without it, analysis of statistical data;
- recommendations to minimize the negative aspects of starting a business on the model of franchising in the Republic of Kazakhstan.

The proposed extent of the thesis

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Keywords

Franchise, franchisee, business, Kazakhstan, comparative analysis

Recommended information sources

Dalberg Global Development Advisors. (2013) Prospects Of The World Economy: Hopes, Realities, Risks.
Katz R. B. (2017). Franchising: enterprise construction, accounting, legal aspects. Grossmedia Verlag.
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Spinelli S., Jr., Rosenberg M., Burley S. (2007). Franchising is the way to wealth.

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Declaration

I declare that I have worked on my bachelor thesis titled "Analysis of advantages and disadvantages of doing franchise business in Kazakhstan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 15.03.2019

Anel Murzatova

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This accomplishment would not be possible without them.

Analysis of advantages and disadvantages of doing franchise business in Kazakhstan

Abstract

The bachelor thesis is focused on comparative analysis of the beginning of commercial activity on franchising model and new business in the Kazakhstan business environment. The thesis consists of an introduction, theoretical and practical parts, conclusion, list of references and applications. The theoretical part provides the reader the concept and essence of franchising, ways to franchise business, advantages and disadvantages of franchise, franchising relationships, along with comparison of buying a franchise and opening a new business in Kazakhstan which will be carried out in the practical part, using comparative and statistical analysis, survey, questioning and interviewing. The conclusion part of this work includes results and recommendations for minimizing risks when buying a franchise and opening a new business in Kazakhstan.

Keywords: Franchise, franchisee, business, enterprise, Kazakh market, comparison, analysis

Analýza výhod a nevýhod franšisové podnikání v Kazachstánu

Abstrakt

Bakalářská práce je zaměřena na komparativní analýzu počátku obchodní činnosti na franchisingovém modelu a nové podnikání v podnikatelském prostředí Kazachstánu. Práce se skládá z úvodu, teoretické a praktické části, závěru, seznamu odkazů a aplikací. Teoretická část poskytuje čtenáři koncept a podstatu franchisingu, způsoby franšizového podnikání, výhody a nevýhody franšizy, franchisingové vztahy, spolu s porovnáním nákupu franšizy a otevření nového podniku v Kazachstánu, který bude realizován v praktické části pomocí srovnávací a statistické analýzy, průzkumu, dotazování a rozhovorů. Závěrečná část práce obsahuje výsledky a doporučení pro minimalizaci rizik při nákupu franšizy a otevření nového podniku v Kazachstánu.

Klíčová slova: Franchise, franchisant, obchod, podnik, kazašský trh, srovnání, analýza

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Introduction

The relevance of the research topic lies in the fact that the symbiosis of small and large businesses in the framework of franchising is recognized as one of the most effective mechanisms for the development of the business environment. The Republic of Kazakhstan sets the task of forming and development of competitive domestic business. The business model of franchising is a less risky than opening and running own business. This leads to large-scale government support for opening new companies. But the costs of government support for new companies are not always justified, new companies have low competitiveness, high risks of bankruptcy and a significant level of dependence on government aid measures (preferential loans, subsidies, grants, government orders, etc.)

Despite the fact that a business built on the model of franchising has the opportunity to receive a complete package of knowledge, business experience, support from franchiser, it has not found much popularity in the Kazakhstan business environment. Therefore, it is necessary to conduct a comparative analysis between opening a business with buying a franchise and start a business "from scratch".

There is no statistical data record in the field of franchised business relations in Kazakhstan, which makes it difficult to conduct a research. That is, the lack of statistical data on the development of franchising in Kazakhstan is also one of the problems that actualize this research.

Another problematic issue is the complexity of control over the financial reports of the franchisee over and above their work. In this matter, difficulties can arise both due to the peculiarities of the country legislation of the license supplier and country franchisee – they simply will not lead to an overall increased level of franchisee income, and accordingly the profit of the company providing the license. In Kazakhstan, the most acute problems arise from the management double-counting leading to similar consequences. The image of the Republic of Kazakhstan, as a country with a high level of corruption and a developed shadow business makes the country unattractive for license providers. Those companies that come to Kazakhstan increase risk indicators, and accordingly, the cost of a comprehensive business license agreement for Kazakhstan entrepreneurs.

When writing a thesis, textbooks, monographs, scientific articles, financial and marketing reports of the studied company were used. The main research methods: statistical analysis, survey, questioning, interviewing, historical, legal, etc.

The structure of the study consists of an introduction, theoretical and practical parts, conclusion, list of references and applications.

1 Objectives and Methodology

1.1 Objectives

The aim of this study is the analysis of the beginning of commercial activity on franchising model and new business in the Kazakhstan business environment.

To achieve this goal, it is necessary to solve the following tasks:

- to reveal the essence and concept of franchising;
- explore the types of franchising;
- describe the methods and approaches used in the comparative analysis;
- to conduct a comparative analysis of environmental factors affecting companies open in the model of franchising and without;
- to conduct a comparative analysis of the factors of the internal environment affecting companies open in the model of franchising and without;
- draw conclusions on the comparative analysis;
- develop recommendations for minimizing risks when buying a franchise and opening a new business in the Republic of Kazakhstan.

Research questions:

1. What is the general condition, problems and prospects of development of franchise model in Kazakhstan?
2. Is there any specialized government support for the franchise development in Kazakhstan?
3. What are the benefits of being a new company and buying a franchise?
4. Does a Kazakh company which operates on a franchising model have a greater financial stability and higher rates of development?

1.2 Methodology

Comparative analysis of opening a new business franchise and without it in Kazakhstan

In the practical part:

- research methodology-description of the methods to be used for research
- comparison of legal requirements for opening a new franchise business and without it in Kazakhstan: analysis of legislation;
- analysis of franchising development in Kazakhstan, influence of factors: dynamics of development of companies, government support, market conditions, etc;
- comparative analysis of business risks at the opening of a new business franchise and without it in the Republic of Kazakhstan: survey and interviewing entrepreneurs who work on the franchise and without it, analysis of statistical data;
- development of recommendations to minimize the negative aspects of starting a business on the model of franchising in the Republic of Kazakhstan.

In order to obtain reliable and relevant information about the differences between starting a new franchise business and without it, the author decided to use a quantitative method-a structured correspondence questionnaire. The formalized questionnaire was distributed to 50 respondents - Kazakh entrepreneurs from the SME sector. A typical questionnaire of 20 questions was divided into 4 question blocks (Annex 1).

- 1st question block was aimed at identifying the business model of the Respondent, the age of the company, the scope of activity;
- 2nd question block allowed to compare the features of the influence of franchising on the efficiency of the internal environment of the new company;
- 3rd question block was aimed at identifying differences and similarities in the impact of external factors on new companies with and without a franchise;
- 4th question block made it possible to determine the nature of the prospects for the development of new companies with a franchise and without it.

To questions 2, 3 and 4 of the blocks, it was suggested to choose 1 of 4 answers: "Yes; rather yes than no; no; rather no than yes".

Also, entrepreneurs who participated in the survey were asked to comment on the answers or give a more detailed answer, an example from practice, if a one-word answer is not enough to get a full picture of the situation.

The process of collecting information and filling in the questionnaire was carried out by means of direct survey of acquaintances of Kazakh entrepreneurs (physical contact) (8 respondents), telephone survey of entrepreneurs from other regions of Kazakhstan (14 respondents), e-mails with a request to fill in the questionnaire (20 respondents), appeal and correspondence in social networks (8). Kazakh entrepreneurs willingly answered questions and in the process of collecting did not have any particular problems or difficulties as the survey was conducted anonymously and there was no need to specify a name or company name.

The obtained data were summarized in a spreadsheet for further processing and creation of graphic material.

The questionnaire was designed to identify differences in the responses of two groups of respondents. It was important to know how ordinary entrepreneurs and franchisees answer the same questions. During the process, entrepreneurs were given a detailed explanation of the goals and objectives of the survey, as well as guarantees of anonymity of the survey participants.

The survey process began with the search for respondents among the author's close circle of communication. Kinship and friendship relations were connected with purpose to collect 50 questionnaires. It was not difficult to find ordinary entrepreneurs, while finding franchisees was a small problem. It was not always possible to interview the business owner directly. In this case, it was necessary to limit the survey to representatives of the management team (for example, the Executive Director), who worked in the company since its foundation or the beginning of work on the model of franchising in the Kazakhstan market.

Also, when choosing respondents, the researcher sought to cover as many areas of the economy. Most of all in Kazakhstan franchisees in the sphere of public catering and trade in fashionable clothes. But if the respondents represented only these two areas, the comparative analysis would not be complete and would reflect differences only in these areas of Kazakhstan's economy. Thus, if the number of respondents from one sphere reached an excessively high value, the search for respondents in this sphere stopped.

The same policy was chosen for the survey of ordinary entrepreneurs who work without buying a franchise.

There were problems with the collection of statistical data of franchising development in Kazakhstan. Officially, no organization maintains such statistics on a permanent basis. In different sources there were different figures both in the number of franchisees in Kazakhstan and in the number of foreign and Kazakh franchisors. The main source of information was a study conducted in the framework of the programs of development of franchising Fund "Damu" which also noted the lack of practice of statistical accounting of the franchising sphere in Kazakhstan.

The collection of the legal basis for the activities of franchisors and franchisees did not cause big problems. There are official legal on-line databases with regulatory documents throughout the legislative system of the Republic of Kazakhstan. The database was searched for keywords "franchising", "franchisee" "franchisor" and found legal documents on regulation of the form of business in the territory of the Republic of Kazakhstan. According to the results of this search, work was carried out in comparison of differences in legal regulation, taxation, control over ordinary entrepreneurs and franchisees.

The main sources of data for the study were:

- the results of a structured questionnaire correspondence;
- official statistics: Committee on statistics, reporting
- state and public organizations responsible for development entrepreneurship in Kazakhstan;
- legal acts: legislation, as well as state programs on development of entrepreneurship in Kazakhstan.

Thus, the selected list of techniques forms the author's approach to study of differences in opening a franchise business and without it in the conditions of Kazakhstan's economy for the current period.

Research methodology. Main research methods: statistical analysis, survey, questioning, interviewing, historical, legal, etc.

2 Theoretical part

2.1 The concept and essence of franchising

For large enterprises, franchising in times of crisis can be a solution to many problems, while small franchising provides new opportunities to build your business on a new wave under a strong brand.

Different authors give different definition to the franchise term. But in general, the word franchise comes from the French word “franchise” (privilege).

“Franchising is a business operation scheme in which one organization (franchisor, franchiser) transfers to an individual or another organization (franchisee) the right to sell goods and services of the first organization” (Rykova, 2017).

The franchisee signs an agreement according to which he needs to sell the goods or services according to pre-established rules - the price, the conditions set by the parent organization. For compliance with the rules, respect for the image and reputation of the parent company and proudly carrying the franchisor’s brand, the franchisee is allowed to use this brand and earn money on it. This, the name of the company, reputation, image, products and services, marketing strategies and advertising campaigns. That is, the strict rules imposed on the franchisee, of course, impose restrictions, but eventually give more pros than cons.

Franchisee has an excellent opportunity to earn money using a brand - an invaluable thing that has been earned by a parent company for years or even dozens of years. In order to obtain such rights and new opportunities, the franchisee makes some initial payment in favor of the franchisor (some may have a substantial payment), after which periodic payments are made - maybe once a month, or maybe once a year. However, the franchisee is not the full owner of the brand in general and the trademark in particular. He can use it only while paying dues. This is similar to rents for the name.

The amounts of payments are determined in the contract. They can be quite symbolic, while the terms of use are tougher. There are significant payments. It also happens that the franchisor establishes the conditions that the franchisee must deduct a certain amount to the advertising fund, thus partially compensating the expenses of the parent company for promotions. One more thing has to be mentioned. Usually, the amount of payments is clearly established by the parent company, but it may vary from buyer to

buyer. Therefore, it is possible to agree on the amount of payment with the franchisor. And the most important thing in all this is that a franchise with all the ensuing consequences allows the franchisee, whether an individual or an organization, to conduct its business successfully, even without having experience in this industry, with the skills and necessary knowledge.

Kazakh legislators, instead of the word “franchising” in the Civil Code of the Republic of Kazakhstan, in Ch. 45 “Comprehensive Entrepreneurial License (Franchise)”, which regulates franchise relationships, use the word “Entrepreneurial License” (Civil code, 1999, July 1, No. 409).

We give all the basic definitions in accordance with national and foreign practice.

According to the Franchising Guidelines of the World Intellectual Property Organization, franchising is “a contract in which one person - the franchisor (copyright holder), which has a developed business system and trademark - permits another person - the franchisee, to use this system according to the requirements of the franchise owner in exchange for a fee” (World International Bureau of the Guide to a franchise, 1995)

Franchising is a long-term mutually beneficial business cooperation, during which a large company (franchiser) provides a small company or entrepreneur (franchisee) with a franchise to manufacture products, trade in goods or provide services under the brand name of franchisor in a certain limited franchise territory for a period and for conditions defined by the franchise agreement. In addition, the process of creating, maintaining and developing a franchise system is also called franchising. (Kokayev, 2017)

A franchisor (franchisor, parent company in a franchise system) is, as a rule, a large corporation with an image, a well-known trademark and a brand in the consumer market. It issues for a certain period and under certain conditions a franchise to the user (natural or legal person) the rights to use the franchisor’s trademark in commercial activities in a certain territory. (Katz, 2017)

Franchisee (franchisee) - an individual or company that acquires from a franchisor for a certain period and under certain conditions the exclusive right to conduct commercial activity using the trademark and the right holder's technologies in a certain territory.

A franchise is the exclusive right to establish a franchise enterprise and to trade products or provide franchisor services under certain conditions and for certain compensation in a certain territory.

A franchise system is an organizational structure of a franchise business that consists of a franchising company, which heads the structure, and a network of franchise enterprises or a franchise network under its control¹¹. (Spinelli, 2003)

For large companies, franchising is a method of distribution business. For small entrepreneurs, franchising is one of the ways to become a business owner. In growing markets such as Kazakhstan, franchising is the fastest way for entrepreneurs to learn the practical standards that are needed to run a profitable business.

Therefore, we can conclude that franchising is both the basis and the result of the interaction of small and medium (large) business. Franchising, on the one hand, helps a person to conduct business independently, but not to be lonely in it, and on the other hand, helps companies to expand effectively, without incurring large expenses for creating and maintaining a massive administrative complex and not experiencing difficulties in managing a wide network of corporate enterprises. Franchising enables large companies to transform their existing network into an efficient, strong business that employs people dedicated to business and brand.

2.2 Features and types of business building on the franchise model

It is possible to work in a franchise in any kind of business. The International Franchise Association identifies 70 sectors of the economy in which you can use the methods of franchising. Franchising is most prevalent in the following industries: accounting, car repair, bookstores, children's clothing and training, construction, small food stores, grocery stores, education, employment services, restaurants, hotels, laundries and cleaning services, private mailboxes, photo studios, real estate companies, tourism and entertainment, rental of special equipment and travel agencies.

Franchising relationships can be profitable for both parts. Franchisee is interested in maximum profit at minimum debit. The franchisee must follow the franchise business rules and participate in advertising and marketing campaigns conducted by the franchisor. The franchisor is working hard to lead the competition, which would be very difficult for a franchisee to do. The franchisor provides the necessary support so that the franchisee can pay full attention to their daily operations. (Philip Kotler, Veronica Wong, John Saunders, Gary Armstrong, 2009)

In order to achieve this level of interaction and protection from the franchisor, the franchisee must form a special relationship with the franchisor. And there must be trust. Such relationships are quite complex. The franchisee is responsible for this business, but he is not an absolute specialist in everything related to this business. A franchisee must have an expert group, a group of advisers who are technical experts. They understand that the franchisee is their leader, he is aware of their authority and experience and will follow their recommendations. In order for such an interaction model to take shape and work, the franchisor must perform a series of actions. He needs to trust the franchisor, to take his point of view, his goals and values in this particular business. Through such an attitude towards the franchisor, the franchisee must build the franchisor's respect and trust in himself. Further, the franchisee must unconditionally accept the clearly defined rules and obligations described in the contract, since after signing the contract they are not subject to any changes or additions. It is also necessary to believe in the business, the brand, give it strength. In addition, the franchisor must follow the operational procedures and standards set by the franchisor. On the other hand, you can constantly offer new business ideas, thereby showing your interest to the franchiser. Anyone interested in purchasing a franchise must decide whether such relationships are acceptable to him.

There are lots of ways to franchise business, but the most common ways are the following:

- **direct franchising.** The franchisor sells the franchise directly to a local entrepreneur (franchisee). This is the best way to ensure a good relationship between the franchisor and the franchisee. In the case of international franchising, where the geographical distance between the franchisor and the franchisee is large, the lack of such a method may be the lack of local support and less attention to local features. Many small franchisors do not resort to this form of franchising, because it takes a lot of time and effort to support such franchisees. Large franchisors use such a system to study the market and business conditions in a given country. Here you can easily explain all the risks. For example, a parent company based in America decided to sell 100 or more franchises in Kazakhstan. However, after the sale and development of 7 franchises, the parent company understands that Kazakhstan has not only its own mentality and its cultural differences, but also its own peculiarities of doing business. And a lot of money was spent on the development of 7 franchises. Wrong and

inefficient. Instead, the franchisor (parent company) needs to sell one franchise and then closely monitor its development. If all goes well, the franchisor can start selling more franchises in this country;

- **master franchise.** These are such franchise relationships when an international franchisor sells exclusive rights to develop the entire system throughout the country to one franchisee. This type of franchisee is called a “master license owner”.

Therefore, a franchisee becomes a franchisor in a given country, selling and offering franchises to other entrepreneurs and collecting from them a service fee (royalties). This often happens when there is an obvious demand for a franchise. In this case, the franchisor does not worry about whether his business will develop successfully or not. Instead, the franchisor is looking for a well-to-do local entrepreneur with an organization that will allow him to make the franchisor system a successful concept throughout the country. (Zemlyakov, 2003)

According to Art. 896 of the Civil Code of the Republic of Kazakhstan, under an entrepreneurial license agreement, one party (right holder) undertakes to provide the other party (integrated licensee) for a reward with a complex of exclusive rights (licensed complex), including, inter alia, the right to use the licensor’s business name and protected commercial information, as well as other objects of exclusive rights (trademark, service mark, patent, etc.) provided in the agreement for use in the licensee’s business.

The business license agreement provides a complex of exclusive rights for use, business reputation and commercial experience of the right holder in a certain amount (in particular, with the establishment of the minimum and (or) maximum use), with or without indication of the territory of use in relation to a specific business activity (selling goods received from the copyright holder or produced by the user, the implementation of other trading activities, performance of work, provided job services).

Parties to an entrepreneurial license agreement can be commercial organizations and citizens registered as individual entrepreneurs.

Franchising integrates the elements of leasing, buying and selling, contracting, representation, however, in general, it is an independent form of contractual relationship between independent economic entities.

In addition to using the equipment and technologies of the franchisor, the operator acquires from him raw materials and materials, semi-finished products and recipes, equipment and furniture, uniform and symbols. At the same time, the operator must maintain the quality standards and the level of service not lower than at the franchisor's enterprises. The inadmissibility of double quality standards is a characteristic feature of franchising, which allows consumers to trust the familiar brand no matter how far from the parent company the operator's firm is located.

The sense of ownership inherent in small enterprises plays an essential motivational role in increasing the intensity of labor and responsibility for its results. Therefore, cases of compromise by the franchisor's trademark operators are very rare and entail termination of the contract and payment of a penalty to the franchisor. Questions of financing franchising are solved depending on its type and the creditworthiness of the participants. The operator can fully invest in fixed assets purchased from the franchisor. However, as a rule, the operator does not have enough own funds, so fixed assets can be leased. In addition, the franchisor is entitled to lend to the operator on favorable terms or act as a guarantor under a bank loan agreement.

In addition to a one-time operator fee and investment in fixed assets, the franchisor can determine a regular fee for advertising the brand, which the operator uses. This fee is from 1 to 5% of revenue and is typical for companies engaged in long-term advertising projects. The franchisor also sets the amount of deductions from the volume of the operator's current sales.

The International Franchise Association identifies the following factors, which according to experts of this influential organization, created the prerequisites for the rapid growth of franchise systems at the beginning of a new century.

Alignment of the growth rate of sales in franchise networks of traditional areas, such as fast food, minimarkets, hotels, motels, car rentals. In each of these areas, a relatively small number of companies owning well-known trademarks will dominate globally.

Continued rapid growth and aggressive expansion of the services sector in national economies and the global economy as a whole. According to a special study by the IAF in the services sector, the specialization and allocation of new market niches will continue. Services such as home repair, interior design and implementation of design

projects, lawn care, housing services, child care, education and upbringing services, along with some types of business services will be the most preferred to use franchising.

Active mergers and acquisitions, in which not large networks merge with each other, but ultimately are absorbed by the giants of the business. Corporate America has shown an increased interest in franchise networks as an investment target.

Strengthening the tendency of independent small entrepreneurs to join franchise networks. This process goes in two directions. On the one hand, franchise networks show increased aggressiveness, seeking to expand the zone of influence by appealing independent operators to their system, on the other hand, the latter are increasingly beginning to look for ways to increase their competitiveness by joining well-known brands. This system is the most common and has the greatest prospect in Kazakhstan.

Franchising as a system for organizing and developing business in Kazakhstan is represented very poorly, despite the fact that in recent years there have been enough publications describing attempts by Kazakhstani companies to use franchising. The essence of this method, its advantages and limitations are still poorly understood and poorly used by domestic businessmen.

3.3 Advantages and disadvantages of the franchise

Franchising is a kind of incubator for small and medium-sized businesses. However, buying a franchise has both pros and cons.

First, let's consider the advantages of buying a franchise.

- **Tested the efficiency of business.** By purchasing a franchise, the entrepreneur can be confident that the company in this area can bring success. Moreover, an entrepreneur will exactly know how to achieve this success. There is no need to spend the resources on market research, the definition of the most profitable niche, the target audience and the development of a successful concept. Also, there is no need to test the efficiency of business processes, methods and technologies by trial and error. The franchisor provides a package of ready-made solutions.
- **Brand.** The factor of having a well-known brand for the development of a new company can be called decisive. Consumers not only overpay for the possession of goods under a certain "brand", but often when buying are not guided by quality characteristics, and their sympathy for certain brands. This situation is one of the main

factors of the favourable external environment of the company. Opening a company under the sign of a well-known brand, the entrepreneur immediately receives a ready stream of loyal customers.

- **Large-scale advertising support.** As a rule, it is the franchisor who is engaged in wide advertising of his brand and products, maintains a reputation and forms the image of the entire network. Advertising budgets of large networks represent huge amounts. Advertising costs on the part of the franchisor bring visible results to the franchisee without any major investments and efforts on their part.

- **Minimal costs at start-up.** Franchisee gets all the experience and knowledge of the franchisor, accumulated during the opening of its own and franchise enterprises. A clear and precise algorithm, the calculated estimates and the budget to fully give a clear picture of the upcoming expenses and nearly eliminate the additional expenses that usually appear at the inexperience and ignorance of the nuances of novice entrepreneurs.

- **Professional training of employees.** Even a franchisee has experience in the market, this does not mean that he can effectively train his employees. The franchisor is much more experienced and competent than most entrepreneurs, as he honed the training system for hundreds of employees of the network. The professionalism of the staff is essential to the success of the entire enterprise. Professional development and special knowledge that employees receive, the guarantee of high quality and efficiency of the enterprise.

- **Support and development.** Franchise is not only a set of specific techniques and guidelines, estimates, calculations and regulations. Franchise involves a permanent partnership. Franchising is primarily a partnership and even family relations, where the older brother (franchisor) first teaches younger (franchisee), and then when difficulties arise reaches out. The success and prosperity of all franchisees is important for the franchisor. The franchisor is constantly working to make the work of the franchisee as effective as possible. To do this, new technologies are introduced, changes are introduced depending on the state of the market, business processes are optimized, and new suppliers are searched. (Norman, 2006)

In General, all the advantages of franchising work for one main goal - to reduce the risks of the franchisee, to turn it in a short time from a novice entrepreneur into a confident businessman. Franchise is a business acceleration program.

However, there are also weaknesses (cons) of the franchise. First, an entrepreneur can enter into a contract with an unscrupulous franchisor, which will not provide him with all the competitive advantages. (Dalberg Global Development Advisors, April 2013)

We can also highlight the following disadvantages of franchising:

- strict rules of cooperation. After the conclusion of the contract, the franchisee must strictly comply with all the rules and requirements of the franchisor. It can concern not only design, assortment and information system, but also client policy, and ways of work with suppliers. Often, regional features can make the requirements of the franchisor impractical, however, will have to obey;
- strict quality control. As well as the general rules and system of the company, quality control is also under the close supervision of the franchisor. The entrepreneur should be ready for additional checks.
- closed list of suppliers. Often the franchisor strictly prescribes to use the services of certain suppliers, which significantly reduces the freedom of action of the franchisee in the event of financial or other problems. Also, working with specific suppliers is quite impractical, given the territory and the availability of suppliers with cheaper but no fewer quality products;
- **non-compete clause.** Often, a commercial concession contract includes a non-competition clause prohibiting the franchisee from cooperating with other franchisor companies or opening its own competing enterprise for a certain period or in a particular territory, even after the contract has been terminated. This can be a significant problem for entrepreneurs, for whom the franchise is only a trial stage before creating their own business;
- **unilateral termination of the contract.** If, in the opinion of the franchisor, the franchisee does not comply with the terms of the contract or improperly conducts business, the franchisor has the right to terminate the contract unilaterally and even initiate legal proceedings for compensation of losses due to illegal use of the brand;

- **liquidation of the franchisor company.** Most companies in the market are not insured against bankruptcy. Often, the franchisor understands that the franchise campaign not only does not bring the expected results, but also pulls the company down. Especially often the liquidation or reorganization of franchisors occurs in times of crisis, when they sell business schemes cannot stand the test of time. (Singh, 2013)

Thus, the franchise has its pros and cons. However, only the novice entrepreneur decides what to choose - to start a franchise business or try to create a successful company without cooperation in franchise networks. Given in this subsection study the advantages and disadvantages of franchising compiled and, by default, fair franchising relationships in the world. At the same time, in some countries, franchising is developing and occupies a high share in trade turnover, production, and in some countries, this does not happen. In the next Chapter of the study, author will consider the features of franchising development and its differences from simple business in the business environment of the Republic of Kazakhstan.

3 Practical Part

3.1 Comparison of buying a franchise and opening a new business in Kazakhstan

3.1.1 Description of methods and approaches used in the comparative analysis

While researching this work, the following methods will be used:

comparative analysis;

horizontal;

trend analysis of quantitative indicators of franchise development in Kazakhstan;

structured correspondence questionnaire;

The comparative method refers to work on the comparison of two or more objects, the allocation of common and different in order to provide similar and different points. As an object the process of opening and registering a new company in Kazakhstan operating under a franchise and without will be taken.

To determine the main trends in the development of franchising in Kazakhstan over the past five years horizontal and trend analysis of quantitative indicators will be used. The following indicators are analyzed: the number of franchising systems in Kazakhstan, turnover in the field of franchising, the number of created places, the share of franchising companies in the structure of SMEs of Kazakhstan, etc.

Also, in the analytical part, the method of interviewing Kazakh entrepreneurs will be used. There are some of which purchased a franchise and some worked without it. This survey will highlight the features of franchising development in Kazakhstan, as well as the problems of working without it. The following conclusions of the comparative analysis based on the survey results of Kazakh entrepreneurs were formulated:

1. The company which operates on the model of franchising, at the stage of opening and formation, gets a more effective internal environment: ready-made solutions for business processes, personnel management, marketing, etc. These advantages have a positive impact on the viability of the new company.
2. Opening a franchise business in the Republic of Kazakhstan provides a more favorable external environment: brand image, consumer portfolio, etc.

3. When buying a franchise, the Manager limits his freedom of action in relation to the company and loses the efficiency of decision-making in certain situations on the market.

3.1.2 Analysis of franchising development in Kazakhstan

For the first time, the franchise model came to Kazakhstan in 1994 with the appearance of the Coca-Cola plant, as well as the opening of the first 5-star hotel in Central Asia of international class "Rahat Palace" ("Hayatt Regency").

Today, franchising is widespread in the opening of retail outlets of fashion and sportswear from international manufacturers (for example, "Adidas").

In 2002, the Law of the Kazakhstan dated June 24, 2002 № 330 "complex business license (franchising)" appears, which not only approves the main legal provisions under the franchise agreement, but also defines the measures of state support of franchising relations:

- development and improvement of the legal framework of franchising systems in Kazakhstan;
- consulting, information support, educational programs;
- the provision of benefits and guarantees provided by different programs;
- work on the registration of a set of exclusive rights, as well as control and protection of these rights. (Law of the Republic of Kazakhstan, 24 June, 2002)

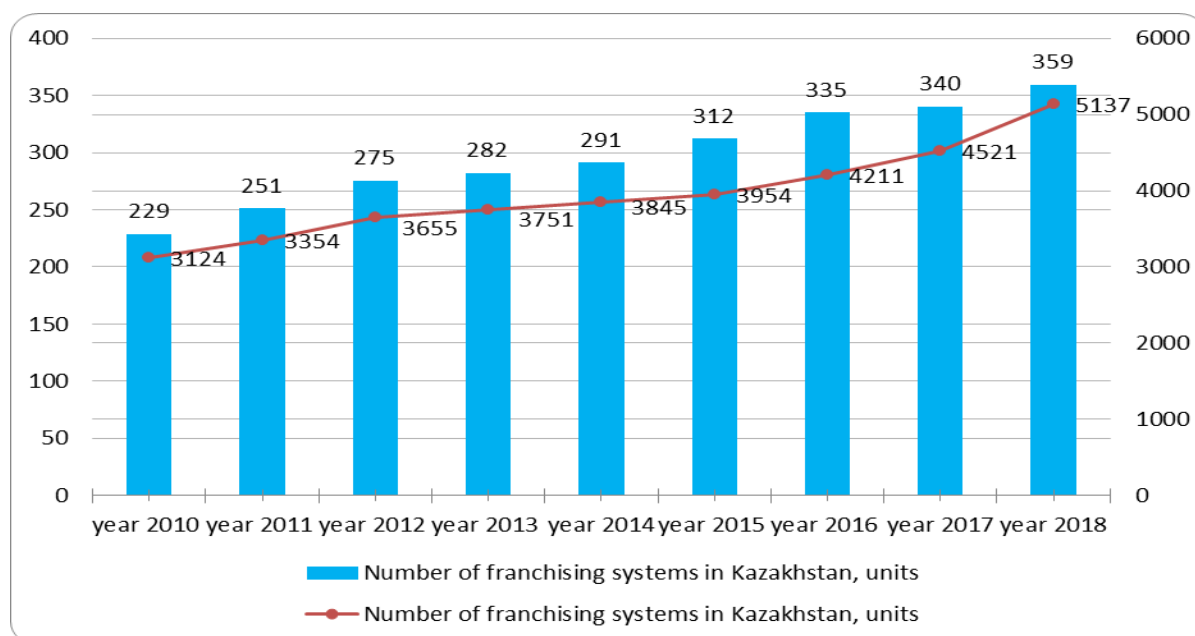
As for preferential state lending and other forms of financial support for the development of franchising in Kazakhstan, this set of measures is carried out within the framework of general programs for the development of entrepreneurship in the country. Also, the entrepreneurship development Fund "Damu" in 2016 allocated 1 billion tenge within the framework of a specialized program of concessional lending for the purchase of a franchise. In addition to the entrepreneurship development Fund "Damu", several specialized and non-specialized institutions contribute to the development of franchising in Kazakhstan:

National Institute of Intellectual Property (Kazpatent). It is engaged in regulation of the trademark turnover sector and registration of franchise agreements;

- The Eurasian Association of Franchising (EAFRAN). It provides consulting services to Kazakh entrepreneurs on licensing and franchising;
- Kazakh Franchising Association (Kazfranch). It forms the franchising space by combining entrepreneurs, franchisees and franchisors to resolve problems, exchange of experience, etc.

As a result of state support, as well as the popularity of the business model, the number of franchising systems, as well as the number of points in Kazakhstan has been increasing since 2010 (Figure 1).

Figure 1 - Dynamics of franchising development in Kazakhstan for 2010-2018



Source: compiled by the author based on report of (Fund "Damu", 2018)

It should be noted that there is no special statistical accounting of indicators of franchising development in Kazakhstan. In this regard, data were obtained from a number of private scientific and marketing research, as well as publications on the development of franchising in Kazakhstan. Diagram 1 shows that the number of franchises is increasing throughout the study period. Thus, in 2016, the McDonald's franchise came to the Kazakhstan market. By the beginning of 2019, there were 14 retail outlets in 4 cities of Kazakhstan: Astana, Almaty, Kostanay and Aktobe. (The official website of McDonald's, n.d.) Regional centers of franchising are the four largest in

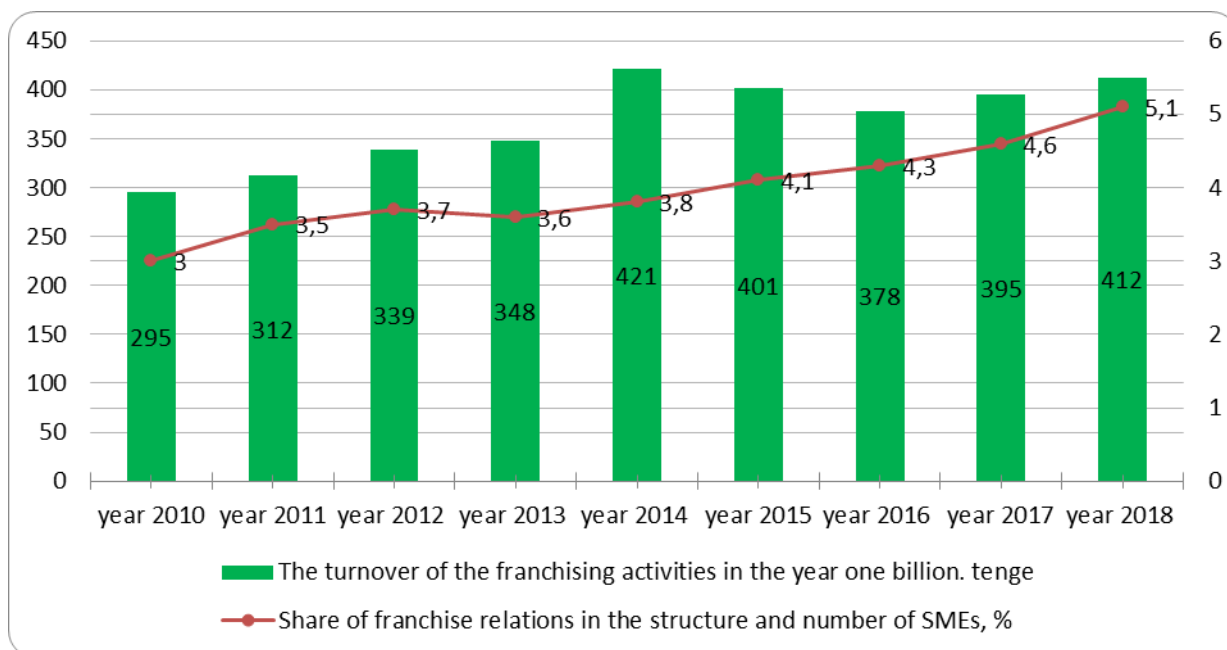
number and income of the population of Kazakhstan: Almaty, Astana, Shymkent, Karaganda, as well as Atyrau, as the center of the oil industry of the Republic with above average incomes.

The regions of Kazakhstan differ sharply in terms of income and entrepreneurial activity.

Almost half of the economic potential (47.3%) of the country is concentrated in 4 regions, as mentioned above, the population of which is about 3 million people, that is, a fifth of the population of Kazakhstan brings about 50% of the total income of the country. The largest share is occupied by the cities of Astana and Almaty, industrial regions. The four lagging agricultural regions account about 11.7% of GDP. (The Committee on statistics of the RK, n.d.) In terms of gross regional product per capita Atyrau region exceeds Zhambyl 10 times.

Companies operating the franchising in Kazakhstan show a high level of financial stability and maintain the pace of development in an unfavorable environment (diagram 2).

Figure 2- Dynamics of franchising activities in Kazakhstan 2010-2018



Source: Compiled by the author, based on report of (Fund "Damu", 2018)

The share of franchising activity increases from 3% in 2010 to 5.1% in 2018. It should be noted that this is a fairly low figure. For example, in Germany, the volume of franchising in SMEs is 45%, and the turnover of retail trade through franchising networks is 60%. (Jumadildayeva, Uspanova, 2015)

If we consider the types of franchising in Kazakhstan, the country has the most distribution / trade franchising, while in Western countries the share of the business format is traditionally higher than the share of trade. Another feature of the franchising market in Kazakhstan is sublicense. International franchisors are in no hurry to work in Kazakhstan directly. Very few direct classical relations: franchisor-franchisee. International franchisors prefer to work in Kazakhstan through their Russian or Turkish master franchisees (sub-franchisors), Kazakh companies in turn act as sub-franchisees (sub-licensees). There are many reasons for this situation in the sector. Perhaps a single language mentality of local consumers with Russian (foreign franchise does not require adaptation), insufficient population density and market, the inactivity of local entrepreneurs in the international franchise market, etc.

Let's consider five world franchises for small and medium business presented in Kazakhstan (**Table 1 – Top five world franchises in Kazakhstan**).

№	Franchiser	In RK since	Number of franchisees	Price
1	Baskin-Robins (USA), russian sub-franchise	2000	15	Contribution 15K \$
				Investment from 30K to 50K \$
2	Burger-King (USA), russian sub-franchise	2012	27	Contribution 20K \$
				Investment from 50K \$
3	Adidas, Germany	1991	12	Contribution from 25K \$
				Investments from 50K
4	TONI&GUY, UK	2005	2	Contribution 10K \$
				Investments from 10 to 15K \$
5	Hardee's, CША	2011	14	Contribution 20K \$
				Investments from 30K \$

Source: Compiled by author based on (Zh. Jumadildayeva, M. Usanova, 2015)

The US is developing in Kazakhstan, about 50 networks, which includes more than 250 franchised outlets. These are deductible as Tiffany Marble, KFC, Coca-Cola, Pepsico, Baskin Robbins, etc. Despite the fewer, the owners of American franchises in Kazakhstan are the leaders in capital turnover. A feature of the us networks in Kazakhstan is that almost all of them, except Tiffany Marble, entered the Kazakhstan market in the form of subfranchise, not directly from the parent companies in the United States, and through masterfranchise from Russia, Greece, Turkey, the United Arab Emirates. Also, franchisees from European countries: great Britain, Germany, France, Italy enter the Kazakh market. These countries represent more than 120 franchises, which opened more than 300 points. This includes fashion boutiques, perfume stores, beauty salons. For example, Toni & Guy (UK), Benetton (Italy), Zara (Spain), etc. In addition, the country has franchises from Turkey, Japan, Israel, Australia, etc.

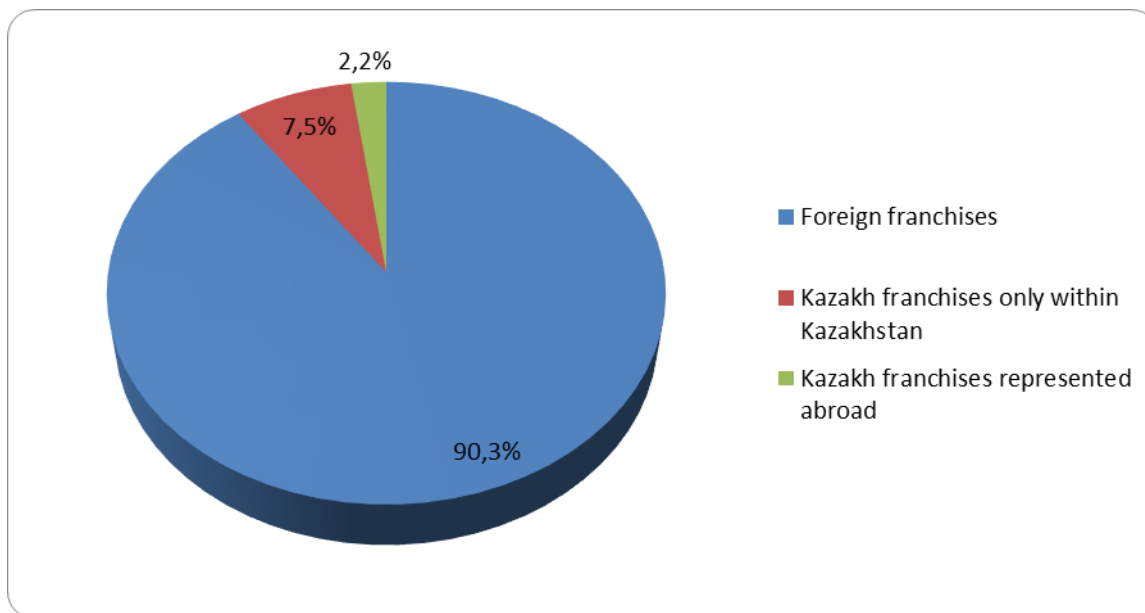
It is possible to note one more feature of the franchising market in the country. There are very few cases of in-country franchising migration. There is no link between big business and small business. Large companies prefer a branch form of regional development, but not a franchise system. Both corporate and state franchising are very common in the world. Large public or private companies transfer technologies and business practices to small and medium - sized franchisee entrepreneurs through the franchising system. But in Kazakhstan, there are very few examples of interaction between large companies and small businesses.

(Kisikov,2017) in his research identifies the following problems of franchising development in Kazakhstan:

- lack of a full-fledged state program of benefits and preferences to the franchising sector;
- insufficient level of intellectual property protection;
- large amounts of initial contribution to the purchase of franchising are a barrier in the conditions of limited access of Kazakh entrepreneurs to long-term credit programs;
- high level of corruption and non-transparency of doing business in Kazakhstan, which reduces the interest of international franchise networks to enter the market-the growth of risks and, accordingly, payments;
- unfavorable factors of Kazakhstan's economy: unpredictable depreciation of the national currency, inflated value of real estate (purchase, rent), a small consumer market, etc.;
- lack of awareness of Kazakh entrepreneurs about the possibilities of purchasing a franchise. (Kisikov, 2017)

Author agrees with the position of B. Kisikov, but it is necessary to clarify the reasons for the low rate of development of franchising in Kazakhstan. For today, the share of foreign franchises prevails in the market of Kazakhstan. For the economy of Kazakhstan, this means the outflow of funds from the country. Respectively, the state policy of support is tacitly aimed at the development of Kazakhstan franchises (figure 3).

Figure 3- the structure of ownership of networks in Kazakhstan



Source: compiled by the author based on (Fund "Damu", 2018)

Figure 3 shows that the share of foreign franchises in Kazakhstan is more than 90% (324). It should be noted that foreign franchises in comparison with Kazakhstan are much more developed and have high turnover of retail trade. The share of Kazakhstan franchises in turnover is not more than 1%. At the beginning of 2019, only 2.2% (8) Kazakhstan franchises operate abroad. It is possible to allocate HappyLyon, ShBS, Mimioriki, Kuralai, Biba, Zibroo, Red Dragon.

Recently, a number of Kazakh companies have been formed, which are actively developing only through the franchising system. Undoubtedly, the current pace of development is not enough.

Some Kazakhstan franchising networks have been established in cooperation with foreign investors. So, in 2009 in Almaty, LLP "YVK Triumph international group" with the Kazakh trademark "Red Dragon" created the international trade network which operates on the principle of Fast food/Take away - by means of branched placement of fast food outlets. The network consists of small trailers that are placed on the street in different parts of the city and sell Chinese food.

In Kazakhstan there are 11 points in the format of street food and one restaurant in Almaty. Points in Krasnoyarsk, Tyumen, Stavropol and Rostov-don have been opened

in Russia in the format of franchising. There are no stated criteria for the selection of franchisees. The franchisee package includes consultations at the following stages:

- creation of project documentation, obtaining permits.
- training of cookery staff in Almaty;
- repair and construction of production facilities;
- acquisition of necessary equipment, development of marketing strategy.

The cost of the franchise varies from \$70 thousand for a food court "turnkey" to \$100 thousand and above - for a network with seven points of street food, depending on the number of points of sale. This amount includes a lump sum fee, the cost of equipment designed to work from seven food courts, seven branded and fully equipped to work trailers, a set of winter and summer uniforms for sellers, as well as a developed menu, calculation cards, access to the business plan and all the secrets of doing business. While increasing the number of points, a discount is provided. The amount of annual royalty payments is discussed individually. The possibility of a one-time contribution together with annual payments is being considered. Payback period is 12 months.

It should also be noted that the low rates of development of Kazakhstan's franchising networks are negatively affected by macroeconomic factors listed above as well as the peculiar to the entire SME sector of Kazakhstan. To clarify the degree of negative or positive impact of the external and internal environment on the new franchise business and without it, an author's study was conducted, the results of which are presented in the next subsection of this work.

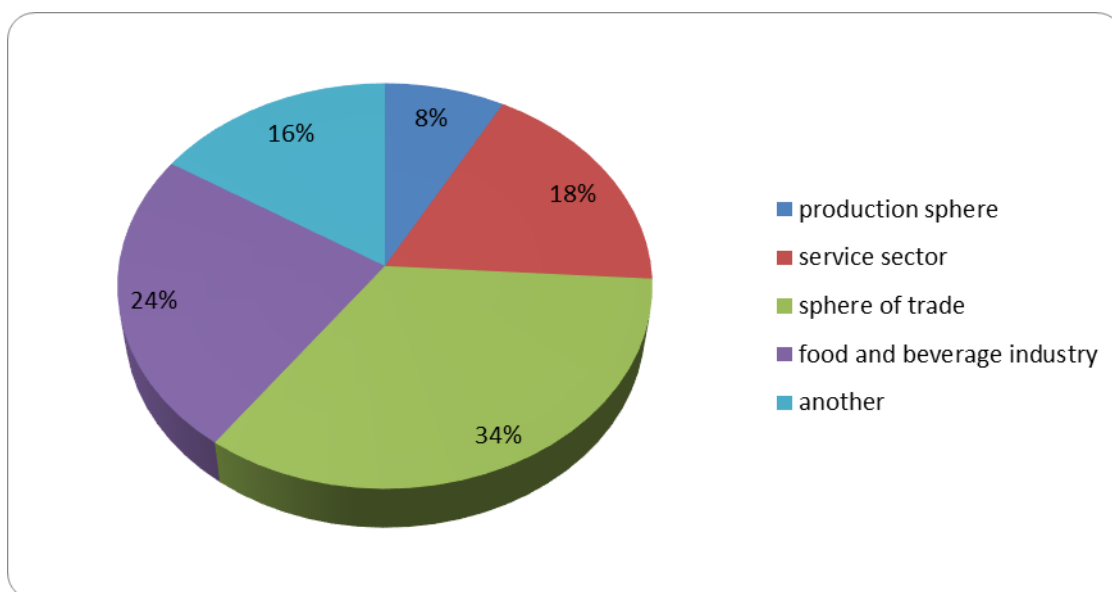
3.2 Comparative analysis of internal and external factors influencing new franchise business and without it

To conduct a comparative analysis of internal and external factors affecting new companies, a survey was conducted among 50 entrepreneurs of Almaty and Astana.

Answers to the questions of the first block showed that 27 respondents (hereinafter - group 1) started a business without buying a franchise, 23 respondents (hereinafter - group 2) carried out the purchase of a franchise in its various forms. The opening time

of the companies ranged from 1 to 5 years, as indicated by the participants of both groups. The results further show that the responses by group had different results. Therefore, it can be argued that there are obvious differences in starting a business with a franchise and without it. The survey was attended by business representatives from all sectors of the economy of the Republic of Kazakhstan (figure 4).

Figure 4- Structure of the spheres of activity of the surveyed entrepreneurs, %



Source: compiled by the author based on survey results

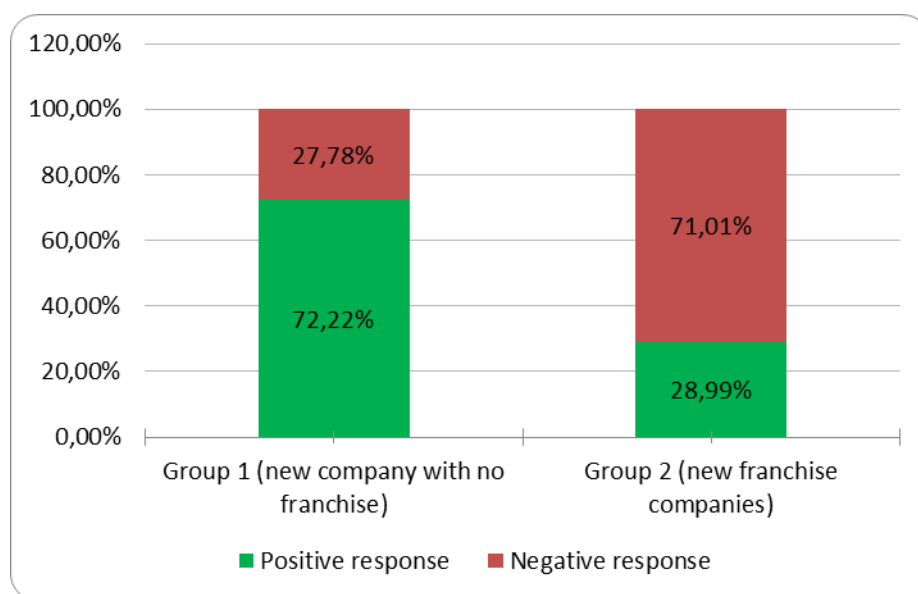
The surveyed Kazakh entrepreneurs carried out their activities in various areas of business, which makes it possible to more fully assess the differences. Entrepreneurs of the service sector were represented by the following types of business: hairdressing, legal, consulting, tourist services. Businessmen of the sphere of trade: boutiques of fashionable clothes, trade in ice cream, construction materials, etc. The catering sector is represented by companies that work in the fast food segment. Production companies were classified as entrepreneurs, producing semi-finished products, food products, clothing and shoes, etc.

The first hypothesis, which suggested that the company working on the model of franchising, at the stage of opening and formation, receives a more effective internal environment, which positively affect the viability of the new company was confirmed by the results of the responses of respondents of the two groups to the questions of the second block.

To questions 2 of the block (6 questions) it was offered to choose 1 of 4 answers: "Yes; rather Yes, than no; no; rather no, than Yes". The questions were formulated in such a way that the positive answers - meant the presence of difficulties and problems on a particular aspect of the company's activities relating to the internal environment.

Figure 5 shows that 72.22% of new companies that started their activities without acquiring a franchise experienced difficulty in forming and developing the internal environment of the company (117 positive answers). In companies that have acquired a franchise, this figure is significantly lower and is 28.99% (40 positive answers).

Figure 5 - Comparative assessment by answering a question: „Did you have any difficulties in forming and developing the internal environment of the company?“ , %

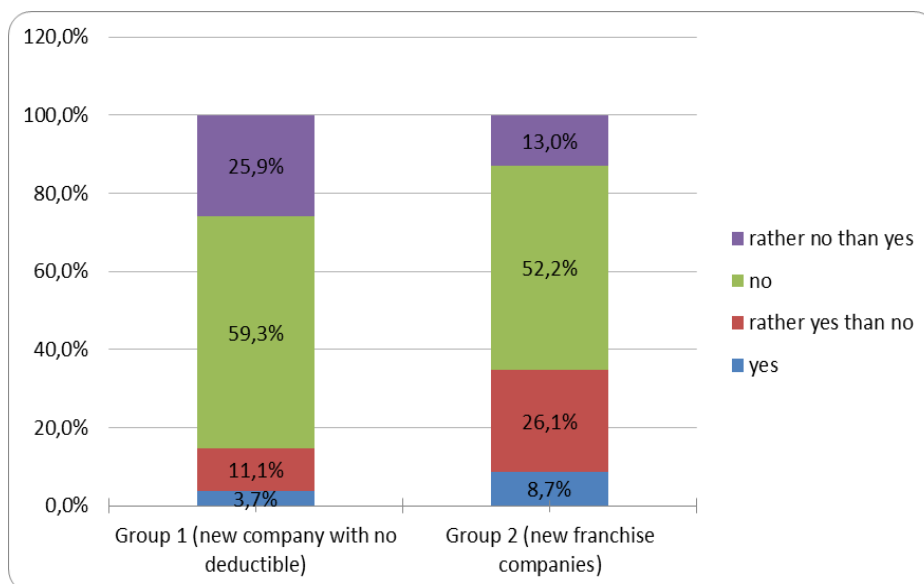


Source: compiled by the author based on survey results

In General, it can be argued that the buyers of the franchise in many cases receive ready-made solutions in many areas: marketing, personnel management, optimization of business processes, etc.

It should be noted that government efforts to create an enabling environment for the development of entrepreneurship are yielding results. Thus, the fourth question of the second block (figure 6) received the least positive number of answers from all interviewed entrepreneurs.

Figure 6- Answers the question: „Is it possible to say that your business experienced difficulties in registration, obtaining permits and other licenses at the initial stages?“, %

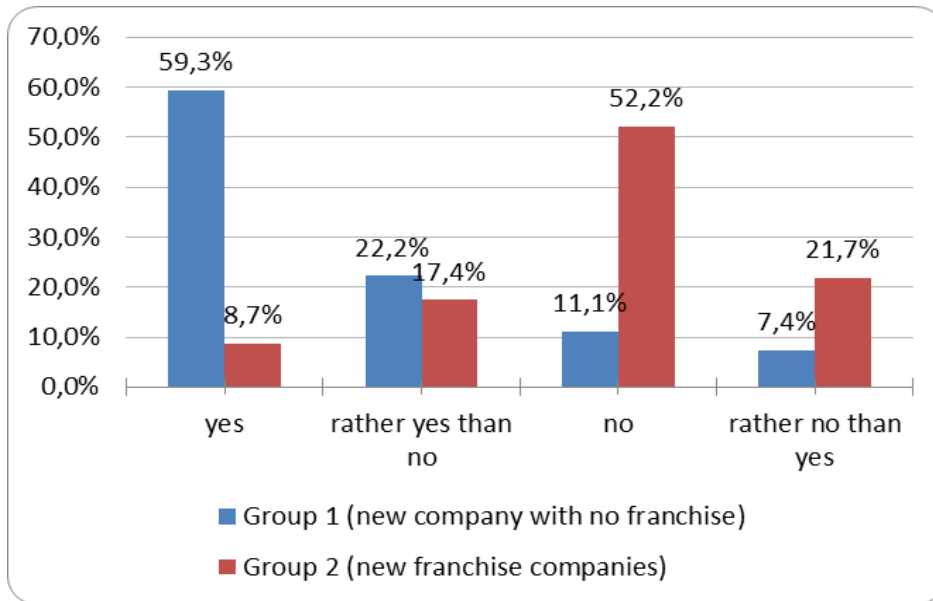


Source: compiled by the author based on survey results

Registration of a new company in Kazakhstan is very fast and takes (with the collection of documents) about 2 days. If you have all the documents within 10 minutes using the portal egov.kz. Obtaining licenses takes longer but is also subject to a minimum of bureaucratic procedures.

Entrepreneurs working on the franchising model experienced the least difficulties with working capital (figure 7).

Figure 7-availability of working capital, %



Source: compiled by the author based on survey results

81.5% of group 1 has positive responses (new companies without a franchise) indicate that companies operating under a franchise (group 2 with 26.1% of positive responses) have better financial planning practices. This might be due to the fact that the purchase of a franchise in the small business requires significant funds (on average 50-100 thousand us dollars). By purchasing a franchise, the entrepreneur already has a certain capital and the best financial and economic indicators for a possible Bank loan. 26.1% of the positive responses of group 2 were due to the fact that the franchise business did not bring the planned profit in the initial stages and there were difficulties with paying rent. In such cases, entrepreneurs either asked to increase the term of the "rental vacation" (and the franchisor went to the meeting) or attracted other sources of funding.

The ease of company registration leads to the fact that a businessman can start work without having capital (experience in this field), which greatly increases the risks of shortage of working capital at the initial stages of development of the company in the future.

A new company operating without a franchise is also more likely to experience problems with sales. To the question " Were there any problems in the sales of products, goods and services: overstocking or low sales turnover? "Group 1 gave 19 positive responses out of 27 (group 2 gave 3 positive responses out of 23). Buying a franchise

reduces the period of full market entry. There is no need for a franchise company to fight for brand awareness.

The group 1 also received a large number of positive responses on the following questions in block 2:

- "Is it true that there was a lack of experience to organize the company's activities, optimize business processes and other management issues in the new company?"- 25 positive responses out of 27 (group 2: 5 positive responses out of 23);
- "Is there a high burden on the formation and implementation of the company's marketing policy: the costs of branding, advertising, etc.?"23 positive responses out of 27 (group 2: 5 positive responses out of 23);
- "Were there any difficulties with the process of staff formation, training and development?"24 positive responses out of 27 (group 2: 13 positive responses out of 23).

Therefore, we can draw the following conclusion: Taking into consideration the peculiarities of the franchise purchase scheme, it can be argued that companies working on the franchising model have a more effective internal environment. This means that such companies are less exposed to business risks and have better competitiveness indicators.

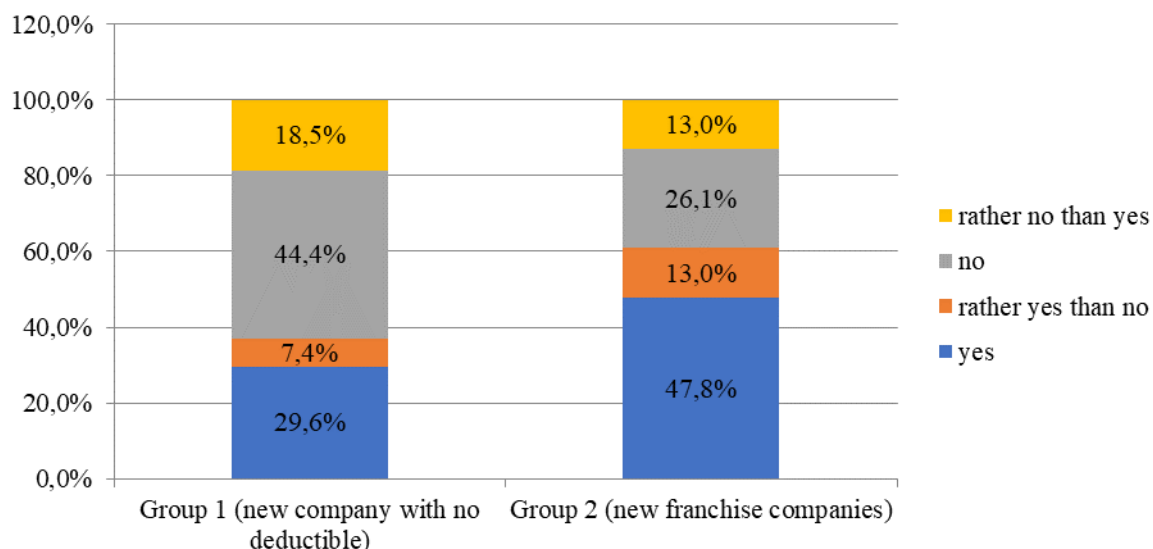
Next, we analyzed the features of the impact of environmental factors on Kazakh companies. The third set of questions consists of nine questions, which related to the speed of registration, state support, peculiarities of competition, dependence on public spending, etc.

The third set of questions begins with the question of ease of registration of a new company. The answers to this question confirm the conclusions formulated earlier that it is too easy for a Kazakh entrepreneur to register a company. Together with convenience, such a state measure leads to the emergence of a large number of non-viable legal entities with zero activity.

In state programs to support small and medium-sized businesses, companies working on franchising are more actively involved. Respondents (as an addition to the answers) identified the following forms of state support of entrepreneurship: competitions of the best entrepreneurs, forums, free educational programs, consulting support, financing

within the framework of the general state strategy of entrepreneurship development in Kazakhstan (figure 8).

Figure 8- Answers the question: “Did Your company participate in state programs of consulting and educational support for small and medium-sized businesses?,, %



Source: compiled by the author based on survey results

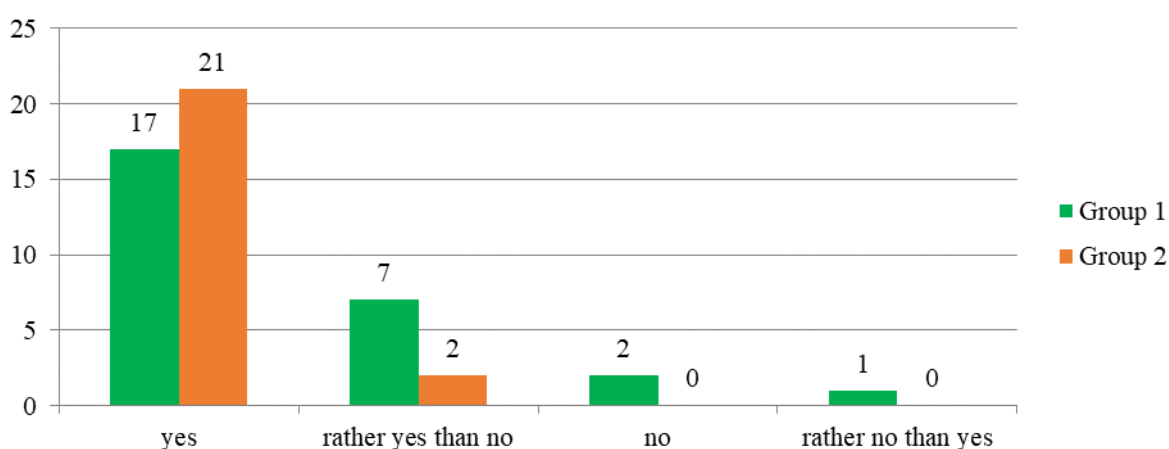
Figure 8 shows that companies operating under the franchise are more likely to resort to government programs to support entrepreneurship. This might be due to the qualitative composition of the management of companies working on the franchise: on the basis of knowledge obtained from the franchiser (the one who gives the license), the franchisee has a great motivation to improve and develop. Also, the franchisee has more effective communication, which allows to raise awareness about the existing programs of state support for entrepreneurs. It should be noted that the franchisee has access (without restrictions) to all measures of state support of Kazakh businessmen.

Along with this access to the majority of programs of preferential government lending or grant aid is difficult. Despite the company's awareness of credit programs and the availability of equity and stable financial flows, 17 of the 23 franchisees surveyed did not receive preferential government loans. This is due to the fact that the franchises in most cases do not meet the conditions of concessional lending. In the history of Kazakhstan, only once "Damu" allocated 1 billion tenge to Finance projects related to the purchase or development of franchising.

Another reason is that franchisees, having worked for several years in the market, do not need to attract additional funds. With success in the Kazakh market, the franchisee itself creates favorable conditions for increasing the number of retail outlets.

To a greater extent, ordinary companies and franchisees are covered by non-financial state measures for the development of entrepreneurship (figure 9).

Figure 9 - Answers to the question "Did your company participate in the state programs of consulting and educational support of small and medium-sized businesses?,"



Source: compiled by the author based on survey results

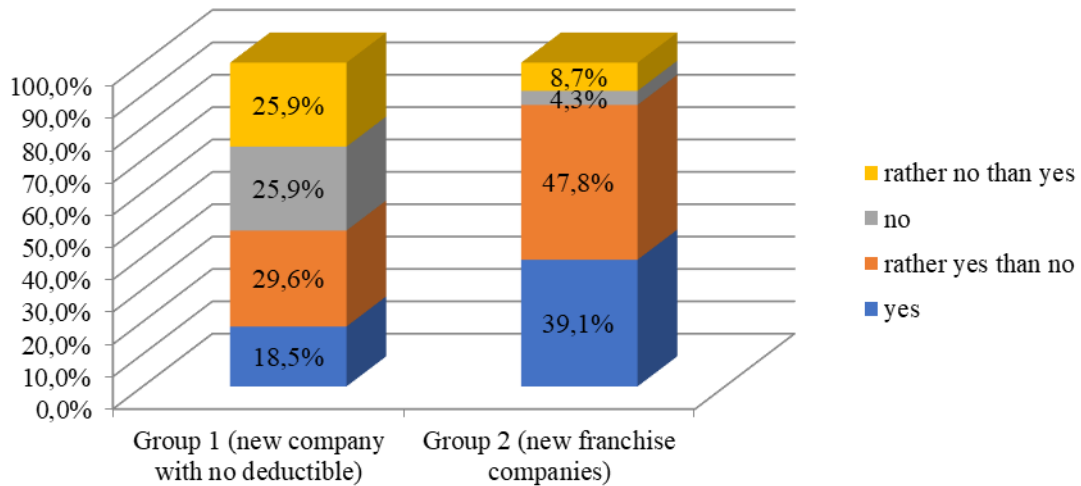
Most of the surveyed entrepreneurs took part in educational and consulting programs. But most of them had a negative impact on educational projects funded by the Fund "Damu".

The problem is that the existing practice of assessing the effectiveness of state non-financial support for entrepreneurship needs to be adjusted and improved. It is necessary to have a correct system of evaluation of works on non-financial support of SMEs, which will identify problems with certain non-financial support tools and solve them, which will have a positive impact on the financial stability of both ordinary companies and franchisees.

The following questions were devoted to the differences between the markets in which simple companies and franchisees work. To the question " is the following statement true: at the time of the company's opening, the market was characterized by fierce

competition? “the following replies were received (figure 11). Positive responses characterize the fierce competition, a negative - the lack of stiff competition.

Figure 10-level of competition in the market, % (question better)

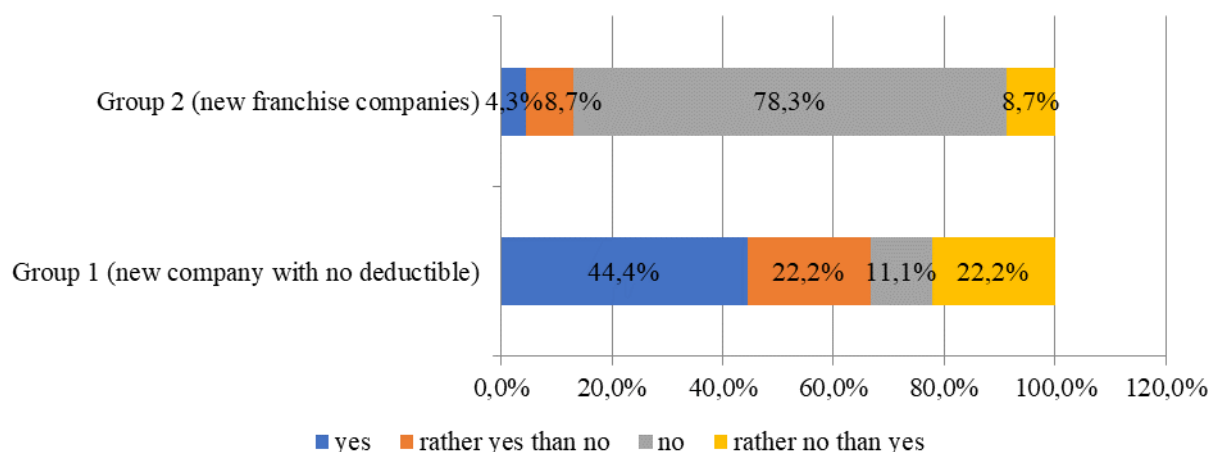


Source: compiled by the author based on survey results

Figure 10 shows that franchise faces tougher competition in the market, that is, it operates in a less favorable environment for the new company. Without the support of the franchisor in these market segments of the new company is difficult to strengthen. New companies that did not acquire a franchise operate in a less competitive market. That is, it can be argued that the difference between just a new company and a new franchisee is that the franchisee enters the most profitable markets where it meets tougher competition. In this regard, the terms of possible bankruptcy of the franchisee are reduced. If market entry fails, bankruptcy and closure will be faster than a company without a franchise. This forms a market of the strongest and most competitive companies.

Brand recognition of the acquired franchisees makes it easier to build new commercial relationships in the market. In some cases, the franchisor gives provides schemes with suppliers of products, logistics, etc. (figure 11).

Figure 11-Answers to the question " Was it difficult for a company to build partnerships with other companies in the market? », %



Source: compiled by the author based on survey results

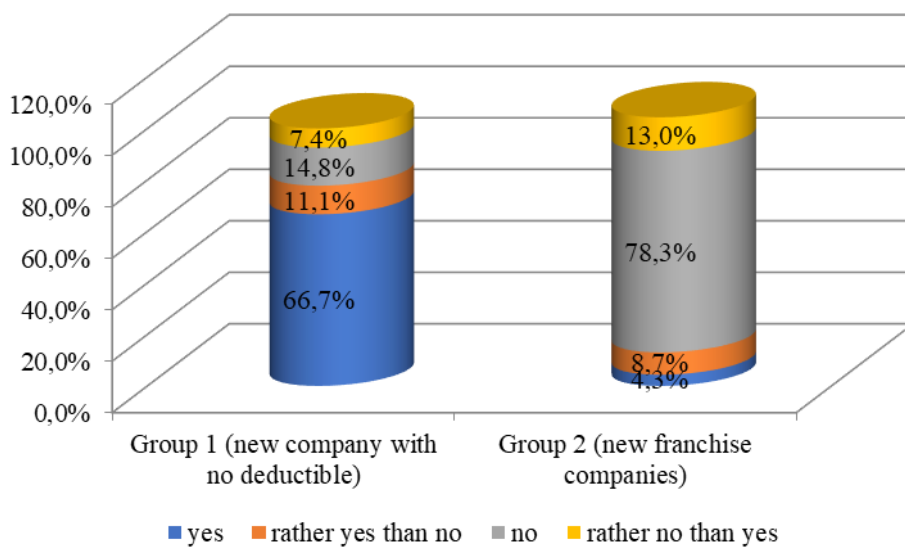
For most new companies operating without a franchise, the construction of new business schemes caused difficulties, it was necessary to build relationships with each business partner, to assess its effectiveness, to resort to the change of unreliable suppliers, the rejection of dubious consumers, etc. at the same time, the franchisee received more favorable initial positions in this area. Most market participants were familiar with the brand and were willing to cooperate. For example, the shopping center "Keruen" (g. Astana) willing to lease space to entrepreneurs who purchased a franchise from well-known world leading franchisors. For new companies with their own brand, there is a list of conditions that must be met by the entrepreneur: a higher amount of security deposit, the presence of a marketing plan, a business plan, etc.

Big business is more willing to cooperate with franchisees than with ordinary entrepreneurs with unknown brands, opaque past and questionable reputation. In any case, this is an extra effort to study a new company, check during cooperation, for which many companies are not willing to spend time and money.

It also appeared that the image and brand franchiser protect entrepreneurs from illegal inspections by state organs. So, if ordinary entrepreneurs believe that was often the subject of audit (17 positive responses out of 27), franchiser believe that infrequently (5 positive answers out of 23). Such results are also explained by the fact that franchisees

are less likely to participate in the implementation of state orders, much less likely to participate in public procurement (figure 12).

Figure 12-Answers to the question " is the statement True: a large share of sales is formed by the work on the implementation of state orders for goods, services, products? », %



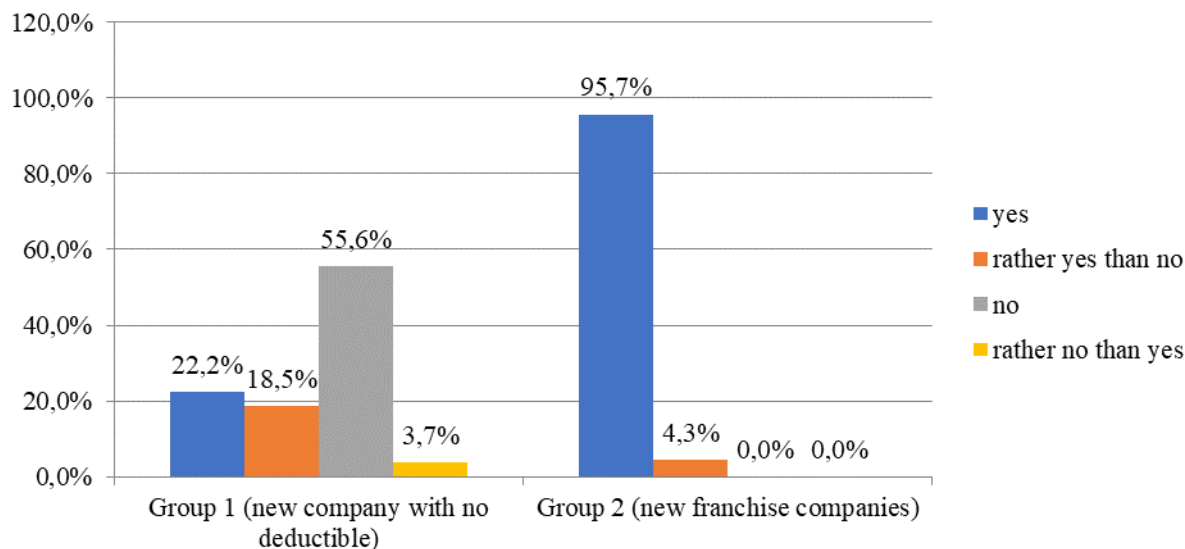
Source: compiled by the author based on survey results

The results of the answers show that the franchisee's sales volumes are less directly dependent on the level of government spending. 91,3% of the group 2 responses confirm that the franchisors do not seek to participate in the public procurement system but work in a market environment. This result is due to the peculiarities of the spread of franchising in the sectors of the economy. Thus, for example, the franchise in the field of public catering cannot participate in public procurement for the provision of food in the framework of certain activities financed by their state budget. It can be assumed that such results are affected by the tough position (fines) of the franchisor, with respect to the participation of the franchise in corruption schemes common in the field of public procurement.

Franchiser has a generally high level of acceptance of strategic decisions in business development. To the question " is it True that in order to make strategic decisions on the

development of the company, you need to coordinate your steps with third parties?" the following results were obtained (figure 13).

Figure 13-Answers to the question " is it True that in order to make strategic decisions on the development of the company, You need to coordinate your steps with third parties? », %



Source: compiled by the author based on survey results

Figure 13 shows that the franchisee cannot make key decisions without the consent of the franchisor-95.7% of the positive responses to the statement. For example, LLP "Korzhubaev SEE" purchased the franchise of the international hotel chain ibis ("AccorGroup"). Accession is carried out on the basis of the contract with management for a period of 20 years. French "AccorGroup" owns and manages about 4,000 hotels worldwide with a total number of about 500,000 rooms and is rightfully one of the leading operators of hotel and restaurant chains in the international market. Accor is present in 90 countries and employs around 145,000 people. In the first year of operation of the ibis Astana hotel, the need to install refrigerators in the rooms was identified (many corporate clients refused the hotel services for this reason). But in accordance with the requirements of the franchisor refrigerators in the rooms are not installed. It took about six months of negotiations to agree on changes to the franchisor's requirements, which led to the resolution of the installation of refrigerators. The franchisor demanded a full description of the problem, calculations related to the innovation and other documentation.

Therefore, summarizing the questions of the third block, we can conclude that the franchising form of doing business is most relevant for highly profitable markets with tough competition. This situation actualizes the use of the experience of the franchisor, reduces business risks, increases the competitiveness of the company. Less profitable markets can lead to a situation where rental payments exceed the net profit of the company.

The fourth block consisted of two questions to which the following answers were received:

- "Is your company in a difficult financial situation and ready to stop its activities or declare bankruptcy in the next few months, years?": franchisee - 4 positive and 19 negative answers, company-12 positive and 15 negative answers;

- "Is your company experiencing a lot of difficulties but continues to develop and will remain on the market in the medium term?": franchisees - 18 positive response and 5 a negative - 17 positive answer and 10 for a negative answer.

The results of the answers to the questions of the fourth block show that the French have greater stability and confidence in the prospects of development. Simple company to a lesser extent confident of the future. This result is also due to the fact that simple companies have greater mobility. They can indefinitely suspend the company's activities, and if there are orders or other favorable conditions to start their work again. Some companies that do not work about the franchise, there are no fixed costs (rent, wages, etc.). In our opinion, this situation relaxes the motivational component of business, does not create prerequisites for the development, improvement and competitiveness. Such companies are useless for the Kazakhstan market.

Thus, in this subsection the survey 50 respondents (Kazakh businessmen), who were divided into two groups (a franchisee and simple company). A comparative analysis of the results of the survey devoted to the peculiarities of the formation of internal and external environment affecting the development of the company, as well as its financial stability and the level of business risks was carried out. Summarizing the findings of the comparative analysis will be discussed in the next section of the study.

3.3 Conclusions of the comparative analysis

Three assumptions of the study were confirmed by the results of the survey, as well as during the analysis of quantitative indicators of franchising development in Kazakhstan.

It has been proven that a franchisee, at the stage of opening and development, will have more effective internal environment: ready solutions for business processes, personnel management, marketing, etc. These advantages have a positive impact on the viability of the new company.

The survey also showed that the opening of a business in the Republic of Kazakhstan on the model of franchising gives a more favorable external environment. The image of the brand, the portfolio of customers and suppliers, the requirements of the franchisor increase competitiveness new company franchisees.

However, the third hypothesis was confirmed. When buying a franchise, the Manager limits his freedom of action in relation to the company and loses the efficiency of decision-making in certain situations on the market. Examples were given where the low speed of decision-making led to losses of the franc.

At the same time, the process of confirmation of the hypotheses made it possible to get answers to the research questions:

1. The pace of development of franchising in Kazakhstan can be called unsatisfactory. The share of the gross product, trade turnover of franchise systems continues to be low in comparison with the same indicators of developed countries. The decisive factor in the departure of foreign franchises from Kazakhstan is the small consumer market of the state and the existing economic problems.

For example, the French franchise brand Carrefour, worked in Almaty for a little over a year and curtailed its activities in July 2017. The main reasons for the withdrawal of the famous French hypermarket from the Kazakh market were devaluation and tough competition. One of the largest coffee chains in Russia and the CIS "Shokoladnitsa" also could not stay long in the Kazakh market and in 2016 after five years of work left the Almaty market, calling the reasons for leaving the economic crisis and the decline in purchasing power. We believe that the main disadvantage of foreign franchises opened in Kazakhstan is the dependence of their activities on foreign currency (ruble, dollar, euro).

Low rates of development of franchise networks (especially trade) are also connected with the general state policy support of domestic franchises by creation of non-trade barriers for foreign franchisors. In our opinion, the Kazakh market cannot be called safe and independent from the state. The high degree of influence of the state branches of government and their representatives on market structures pushes potential franchisors from creating favorable conditions for potential partners and entering the Kazakh market with their brand. Behind the scenes, many potentially profitable sectors of the market are under the control and influence of certain centers of state power and access to these markets is associated with the need to negotiate far from the rule of law and commercial purposefulness.

At the same time, small Kazakhstani franchising networks are also developing at a low rate. We believe that the reason for this rate of development is similar to the situation with foreign franchisors. You can also assume that Kazakhstan franchisor less credible, because they are relatively young, and their brands are not well known.

Analyzing the development of the franchising market in Kazakhstan, we are faced with the problems of finding open and complete information, as in the state statistics separate accounting for franchising companies is not conducted. The most popular franchises in Kazakhstan are concentrated in the field of fast food and trade.

2. In Kazakhstan, there are still no preferences and indulgences for domestic franchisors. Although, the enterprises operating under the franchise are in the majority the priority segment of SME, they cannot receive preferential crediting within the framework of projects of the state programs. They have a chance to get a bank loan for the purchase of special equipment, but in terms of the already existing franchise. In addition, Kazakhstan has a problem with the taxation of royalties-periodic interest payments to the seller of the franchise. In the Tax code, there is no such thing as a franchise royalty, so it is offset in income, which as a result leads to double taxation.

Predicting the development of franchising in Kazakhstan, it should be noted that in the Kazakh business environment, in the near future, should expect an increase in interest in this form of opening and business development.

3. A franchisee, unlike simple has several advantages to establishing effective business:

- relatively low start-up capital to start business development, which is the most important issue for start-UPS;

- the opportunity to get a relatively ready-made business with the available technology, ethics, as the franchisor provides comprehensive support through training, establishing contacts with suppliers, marketing research, etc.;
- the franchisee, in contrast to the ordinary entrepreneur has a low business risk, due to the fact that the franchisee, of course, is trying to buy a well-known trademark of a financially stable company;
- franchisee initially goes to the profitable sectors of the market and gets quite a profitable business. According to statistics, the average payback period of the company is 6-12 months.

4. As shown by the results of the survey to a franchisee, in contrast to the simple, the company has a high indicator of financial stability and good development prospects.

Therefore, in this subsection, the main differences between a new simple business and the purchase of a franchise are formulated. The franchisee has a number of advantages over an ordinary enterprise, but has an increased financial burden in the form of fixed costs for rent payments, rent, wages, etc.

4 Recommendations for minimizing risks when buying a franchise and opening a new business in the Republic of Kazakhstan

Despite the attractiveness of doing business on the model of the franchise, the following factors inhibit its development and should be considered when choosing a franchisor:

- non-transparency of the market and a high level of links between the political system and the market;
- imperfect legal framework for the regulation of franchising relations, which primarily concerns the protection of intellectual property, as well as legal relations under the contract of commercial concession;
- problems with the instability of the national currency, which leads to a rise in the cost of the final product against the background of a decrease in the consumer ability of the population (especially in the field of food);

- search for sources of financing of initial capital for the formation of business, where the state can provide great support through the creation of a special state body, the development of franchising programs, the provision of tax incentives and incentives, the introduction of special banking products with reduced interest rates, etc.;

- weak interest of foreign franchisors, including American ones, to Kazakhstan: after all, with a low population density, franchise networks, respectively, are distributed unevenly and are mainly concentrated in several cities: Almaty, Astana, Karaganda and Atyrau; in addition, the low purchasing power of relatively developed countries affects the profitability of business.

For the development of franchising in Kazakhstan, we propose to use the Czech experience in this area.

At the moment, in the Czech Republic, a choice of novice businessmen is provided with 246 franchise concepts, of which 142 - foreign, the rest - Czech. It is foreign franchises that enjoy great success-partly because many brands came to the Czech Republic recently, and some had to look for partners for years.

The most popular Czech franchises are related to the restaurant business. For example, one of the most common is the franchise brewery Bernard. Among the Czech brands are also quite popular pharmacies Benu, coffee CrossCafe, real estate Agency Evropa, fresh bars Ugova čerstvá šťáva or chain stores Oxalis čaj & káva.

Who dreams of a more large-scale business, can make a choice in favor of names that are known around the world, like Subway or McDonald's, health food shops Naturhouse, French cosmetics Yves Rocher, the music school, Yamaha etc.

Franchising in the Czech Republic, as a way of business development, is most often used by those companies that want to move through the regions in the form of a network. For many of them, this business format is much more convenient: it takes less time and brings more income than, for example, opening its own branches.

No matter which brand the aspiring entrepreneur chooses - Czech or international - the benefits will be obvious. Franchising in the Czech Republic greatly simplifies market entry and reduces the risk of failure.

Buying a franchise, entrepreneur associate his business with a certain brand. This brings both benefits and losses. For example, if the owner of the franchise decides to close his

business, franchisee will not be able to continue the work in the form in which he conducted it until then. That is why such moments should be prescribed in the contract - the document must specify the period of use of the franchise and compensation for damage if the company is closed.

When a entrepreneur signs a contract with the owner of the franchise, he needs to advance in writing to fix his financial and other obligations to him. Franchise owners often put their partners in a very strict framework-for example, oblige them to buy products of a certain quality or from certain manufacturers. Often, under the terms of the franchise is prohibited to add new services to an existing list, which can reduce your income.

Choosing a franchise, give preference to brands that have been successfully operating in the market for a long time. After all, if the owner of the franchise will face some difficulties, they will spread to franchisee. However, franchisees have to be careful with large international brands - they have too expensive lawyers.

To buy a franchise, franchisee needs a substantial amount of money. After all, he is obligated to pay for the opportunity to use the brand, and then make monthly payments. Franchisee will need money for standard expenses, such as purchase of equipment, rental of premises, advertising, salaries of employees, etc. But despite all the risks, the franchise still has established itself in the world market as one of the most successful ways of business development.

5 Conclusion

The results of the study can be concluded as follows.

Franchising is both the basis and the result of interaction between small and medium (large) businesses. Franchising, on the one hand, helps a person to conduct business independently, but not to be alone in it, and on the other hand, helps companies to expand effectively, without incurring large costs for the creation and maintenance of a massive administrative complex and without experiencing difficulties in managing a wide network of corporate enterprises. Franchising enables large companies to turn their existing network into an efficient, strong business, which employs dedicated people and brand.

Franchising as a system of organization and business development in Kazakhstan is very poorly represented, despite the fact that in recent years there have been enough publications describing the attempts of Kazakh firms to use franchising. The essence of this method, its advantages and limitations are still poorly understood and poorly used by domestic businessmen.

In the course of the study, the following methods were used: comparative analysis, horizontal, trend analysis of quantitative indicators of franchising development in Kazakhstan, structured correspondence questionnaire survey. The selected list of techniques allowed to form the author's approach to the study of differences in the opening of a business franchise and without it in the Kazakh economy.

It was determined that the low rates of development of Kazakhstan's franchise networks are negatively affected by macroeconomic factors listed above and characteristic of the entire SME sector of Kazakhstan. To clarify the degree of negative or positive impact of the external and internal environment on the new franchise business and without it, an author's study was conducted.

To conduct a comparative analysis of internal and external factors affecting franchisees and ordinary companies, a survey was conducted among 50 entrepreneurs of Almaty and Astana.

Three hypotheses of the study were confirmed by the results of the survey, as well as during the analysis of quantitative indicators of franchising development in Kazakhstan. Therefore, it was proved that the franchisee, at the stage of opening and development,

will have more effective internal environment: ready solutions for business processes, personnel management, marketing, etc.. Opening a business in the Republic of Kazakhstan on the model of franchising provides a more favorable external environment. When buying a franchise, the Manager limits his freedom of action in relation to the company and loses the efficiency of decision-making in certain situations on the market. Examples were given where the low speed of decision-making led to losses of the franc.

The following were highlighted as key benefits to a franchisee:

- relatively low start-up capital to start a business;
- the opportunity to get a relatively ready-made business with the full support of the franchisor;
- low business risk;
- access to profitable sectors of the market and fast return on investment.

To improve the efficiency of the franchise business model, we have formulated proposals and recommendations for beginning Kazakh entrepreneurs. The Czech franchisor is also offered as a possible player in the Kazakhstan market.

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7 Appendix

Questionnaire

Dear Respondent, please select the answer that corresponds to the formulated question or statement. If necessary, you can select several options.

Block 1.

Question 1. Did you use a franchising model when starting a business?

A) Yes B) Partially C) No

Question 2. How many years does Your company work in the Kazakhstan market?

A) less than 1 year B) 1-3 years C) 3-5 years D) more than 5 years

Question 3. What area of the economy does your business operate in?:

A) production sphere B) service industry C) scope of trade D) food and beverage industry
E) other

Block 2.

Question 4. Is it possible to say that Your business experienced difficulties in registration, obtaining permits and other licenses at the initial stages?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 5. Can we say that the company experienced difficulties with working capital and sources of financing at the initial stages?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 6. Were there any problems in the sales of products, goods and services: overstocking or low sales turnover?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 7. Is it true that there was a lack of experience to organize the company's activities, optimize business processes and other management issues in the new company?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 8. Is there a high load on the formation and implementation of the marketing policy of the company: the cost of branding, advertising, etc.?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 9. Were there any difficulties with the process of staff formation, training and development?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Block 3.

Question 10. Was it difficult to register a new company in the Republic of Kazakhstan?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 11. Do you participate in government programs to support small and medium-sized businesses?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 12. Did Your company receive preferential government loans or grants?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 13. Did Your company participate in state programs of consulting and educational support for small and medium-sized businesses?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 14. Whether the following statement is true: at the time of opening of the company the market was characterized by rigid competition?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 15. Was it difficult for the company to build partnerships with other companies in the market?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 16. Is it true that the company has often been subjected to inspections by regulatory authorities?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 17. Is the statement true: a large share of sales is formed by the work on the implementation of state orders for goods, services, products?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 18. Is it true that in order to make strategic decisions on the development of the company, You need to coordinate your steps with third parties?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Block 4.

Question 19. Your company is in a difficult financial situation and is ready to stop its activities or declare bankruptcy in the next few months, years?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Question 20. Your company is experiencing a lot of difficulties, but continues to develop and will remain on the market in the medium term?

A) Yes B) Rather Yes than No C) No D) Rather No than Yes

Thanks for the replies!