**CONCLUSION on 2.2**

According to the theory of transaction costs, firms tend to expand with the least cost to insure profitability. The key point in the decision to expand to foreign markets for companies is uncertainty about the future conditions. Uncertainty increases the costs of the firm, especially with regard to information search, its processing and adaptation. American scholars Contractor and Kundu have defined franchising as a hybrid form of business relations emerging between markets and hierarchies that provides useful actions in market transactions.

The business climate of the national market is determined by economic, political, technological and socio-cultural factors, which are important indicators of the development of franchising relations in a particular country.

In the context of this research, the results of the survey were summed up, the main factors of business development in Kazakhstan were determined (Figure 1).

Diagrame 1. Structure of the results of responses to the question "The main factor hindering the successful development of your business?"

**Brief description of the analysis of factors of business environment on the basis of desk research:**

- **POLITICAL FACTOR** – According to the Strategic Development Plan of Kazakhstan until 2020, improving the business climate is a strategic goal that determines the long-term political course of the country. For this, Kazakhstan is improving the legal framework that regulates the business environment, develops documents aimed at developing business, reforms the tax policy in the direction of reducing, simplifies the procedure of registering and closing down the enterprise, including powerful government support for entrepreneurial activities. It should be noted that the development of franchising is currently facing certain problems. For example, according to global standards of franchising business, there is a principle of single prices throughout the franchise network. This principle allows all the links of the network to pursue a unified promotion policy.

However, according to Article 13 "Abuse of dominant or monopoly position" of the Law on Competition, the owner of the brand can not determine the price of goods (works, services) at a single level. This action will be recognized as non-valid. The absence of an opportunity to establish uniform prices for all subjects of franchising in a certain area can prevent consumers from perceiving the network as a whole, which will lead to a decrease in the recognition of the franchise.

Also, in the Law of the Republic of Kazakhstan "On a complex entrepreneurial license (franchising)," the franchisor's duty to the franchisee is limited to the training and consulting of franchisees, not on a permanent basis. Experts believe that the fact that the franchiser, while continuing to receive royalties, will stop to support and improve the skills of franchisee workers, will also reduce the level of control.

- **TECHNOLOGICAL** - In 2017, according to this rating, Kazakhstan was ranked 35th among 189 countries, showed a growth rate of 1 point as compared to 2016. And, during the last three years, Kazakhstan has improved its rating by 15 points. This research is conducted on an annual basis in 189 countries and determines the ranking of countries with favorable business climate in 10 areas.

 It should be noted, that the appearance of «Community Service Centers» significantly facilitated the process of registration of enterprises. According to the world rating of Doing Business, Kazakhstan increased in positions in: "Obtaining construction permits" (41st place, increasing by 19 positions in comparison with 2016, during the last three years increasing by 104 positions), "Registration of property"(17th place, increasing by 1 position, during the last three years increasing by 1 position) due to government support.

There are also improvements in "Connection to the power supply system" indicator (70th place, 5 positions, during the last three years an increase by 17 positions). The experience of doing business in Kazakhstan shows that, it is easy to open a business, but continued functioning leads to various bureaucratic procedures, so, there are facts of the existence of small and medium-sized businesses in the informal sector. One of the problems of the economic development in the RK is still inadequate of infrastructure. While Kazakhstan ranked 53rd position among 138 countries in the world rating Global Competitiveness Index 2016-2017, "infrastructure", one of the basic sub-indices - only 63rd, which is lower than in developed countries and in many developing. According to world rating Global Competitiveness Index 2016-2017 GV, technological factors such as the insecurity of infrastructure and limited innovation take up to 2% and 4.7% in the list factors hindering the development of entrepreneurship.

In the view of the importance of branding, the franchising system as a form of entrepreneurship, faced with the technological factor problems in the Kazakhstan market, may fail. The development of technological factors contributes to the development of franchising, for example, the underdevelopment of the whole infrastructure leads to the non-compliance with the standards, franchisor’s requirements associated with late deliveries, logistics, storage, warehousing, etc.

**ECONOMIC** - It should be noted that the crisis period turned out to be productive for the development of franchising in Kazakhstan, this is evidenced by the fact that during the crisis of 2007-2009, the number of franchising companies has increased significantly. According to American franchising researchers R. Hoffman, J. Munemo and S. Watson, the impact of the economic crisis seemed to slow down the international expansion of US franchises as the world leader in franchising. However, it is noted by scientists, that this slowdown was short. In the period from 2005 to 2011, there were more than three thousand applications for the international expansion of US franchises, conclusions were reached. First, the effect of the crisis outside the US came later, as a result, world markets were still attractive for American firms. Second, emerging markets, which account for more than 70% of the target markets for US firms, were growing economically compared to the US. For example, during the crisis period, China's economy grew by 8%, and the economy of India by more than 4%. So, world markets turned out to be a more attractive alternative to the weak domestic market of American firms.

To study the economic factors affecting the development of entrepreneurial activity, we need to consider the main socio-economic indicators of the Republic of Kazakhstan in the recent period. This overview provides a basic understanding of the economy, which in turn will help assess risks and predict future developments. Table 1 presents the main socio-economic indicators of the Republic of Kazakhstan at the beginning of 2017.

Short-term economic indicator in January 2017 amounted to 105.2% as compared to January 2018**.** Short-term economic indicator is calculated for ensuring the efficiency and it is based on changing realizing index in basic industries: agriculture, industry, construction, trade, transport and communications which amount to 67-68% of GDP.

Per capita income of the population, estimated in November 2017, amounted to 81039 tenge, which is 1.5% lower than in November 2016. During this period real money income has decreased by 8.2%. Average monthly wage was 168220 tenge in December 2017. The number of unemployed people was estimated in December 2017 was 441.8 thousand people. The unemployment rate was 5% of the working age population. The volume of gross domestic product amounted to 35142065,217 million tenge for January-September of 2017, compared to this period in 2016 real GDP grew by 7.5%.[5]

The output of small and medium-sized enterprises (SMEs) for 2016 is estimated at KZT 16 857 billion, which is 23.1% in relation to GDP. The real growth in production of SMEs in 2016 was 1.07%. In foreign countries, small and medium-sized businesses is the main sphere of employment, contributing to the development of the innovation capacities of the economy. The amount of employed in small and medium-sized companies in developed countries, as well as in Russia, is about 50-75% of the economically active population. In Kazakhstan, the share of the population employed in the SME sector is also much lower than in developed countries: in 2016, this indicator reached the level of 35.9%. At the same time, in 2016, there was an increase in the number of registered SMEs in Kazakhstan by 2.2% or 1,500 thousand units. At the same time, their share in the total number of economic entities in the country remained at the level of 2015 - 96.1%. In the sectoral context, the largest increase was observed in 2016 in the services sector, construction, education and manufacturing. The decrease in the number of registered SMEs was observed in trade, transport and warehousing. [6].

Franchising is developing in our country in the sector of small and medium-sized enterprises (SMEs). Of course, the contribution of SMEs to the GDP of the country lags far behind other countries. It is necessary to take into account in this analysis the distinctive features of entrepreneurship, which are related to cultural differences, the capacity of the economy, commercial and non-commercial support of this sector, etc. Against the backdrop of the dollarization of the economy, deposits in the national currency are noticeably decreasing, and it is known that small business projects are being financed from the fund of these deposits. Therefore, to date, there is a need for continuous state support for the financing of entrepreneurship in general, and franchising particularly.

The author of the work carried out **the Empirical research "Perspectives of franchising development in the Republic of Kazakhstan".**

This empirical research was conducted by the author in January 2015. For the research, the following groups of respondents of various professions were selected, who participated in the survey:

1) lawyers, who are interested in providing consulting services for potential franchisors and franchisees;

2) bank employees, who are interested in developing lending to potential franchisors and franchisees

3) consultants, who are interested in providing consulting services for potential franchisees to promote franchising as a new business model for Kazakhstan companies.

All the respondents were asked to fill out questionnaires designed for the analysis of macro-environment factors affecting the development of franchising in Kazakhstan. The results of the study of the questionnaire (Annex 1) were included in PEST-analysis (political, economic, social and technological factors). A total of 270 respondents took part in the survey (90 lawyers, 90 bankers and 90 consultants).

Most of the respondents noted the fact that franchising has the largest potential growth in the hospitality industry. The study showed that the main constraining factors for the development of franchising are: a weak legislative system in the field of regulation of franchising relations, a lack of knowledge about the advantages and opportunities of franchising as a new business model.

Table 2 presents the main opportunities and risks for the development of franchising in the Republic of Kazakhstan.

Table 2

The main opportunities and risks for the development of franchising in the Republic of Kazakhstan.

|  |  |  |
| --- | --- | --- |
|  | **Opportunities** | **Risks** |
| Lawyers | Development of the service industry; Insufficient awareness of franchising as a new profitable business model | Absence of a system of compulsory registration of contracts regulating franchising relations;  The absence of rules and standards for regulating the procedure for disclosing information on a franchise at a pre-contract stage; |
| Bankers | The market is still not saturated with franchising;  Strict quality control of products and customer service by franchisors provides opportunities to increase demand; | Complexities with formation and receipt of grants to buy rights to franchise;  Weak legal frameworks; |
| Consultants | The country successfully integrates into various unions, into the system of globalization of the economy, which gives an incentive for the development of international franchising; | The low attractiveness of the Kazakhstan market for foreign franchisors due to the low level of in-country migration owning to the specificities of Kazakhstan's geographical position and the large discrepancy between urban and rural population;  Little experience and lack of qualified experts in the field of franchising;  Insufficient awareness of franchising as an advantageous form of entrepreneurial relations; |
| Note: Compiled by the author on the basis of a survey of lawyers, bankers and consultants | | |

The respondents were invited to identify the main political, legal, economic, social and technological factors affecting the development of franchising in Kazakhstan. All collected answers were systematized and reflected in the review matrix for PEST analysis factors (Table 3).

Table 3: PEST analysis of franchising development in Kazakhstan.

|  |  |
| --- | --- |
| **Political factors**  Absence of a system of compulsory registration of contracts regulating franchising relations;  Lack of rules and standards for regulating the disclosure of franchise information in the pre-contract stage; Bureaucracy;  Insufficient protection of franchisee's rights;  Absence of highly specialized lawyers who solve legal issues in the field of franchising. | **Economic factors**  Relatively small market for the development of large franchises;  Low purchasing power;  Slowdown of economic development: Growing unemployment;  Uncertain world economic environment and regional geopolitical tensions represent risks for the economic prospects of Kazakhstan. |
| **Socio-cultural factors**  Mentality (violation of business agreements, expectation of a quick profit by local entrepreneurs);  The presence of an atmosphere of distrust;  The conservatism of the local people, which is manifested in a weak individualism and resistance to change as a mentality feature. | **Technological factors**  Lack of sufficient knowledge in the field of new technologies;  Low growth rates of high-tech enterprises;  Insufficient infrastructure supply;  Low level of technological education;  Insufficient allocation of companies in R & D. |
| Note: Compiled by the author on the basis of a survey of lawyers, bankers and consultants | |

The respondents made positive forecasts about the development of franchising in Kazakhstan with accession to the Eurasian Customs Union, the Eurasian Economic Union. Since the integration of Kazakhstan into various regional, interstate alliances is the accelerator of the development of franchising relations. According to the respondents the number of franchisors and franchisees will grow by 30-50% over the next 5-10 years. Participants expect faster growth of foreign franchisers in comparison with Kazakhstan ones, with a large concentration of franchising networks, especially in established economic zones of Kazakhstan, such as Astana, Almaty, Taraz, Karaganda, Aktau, Atyrau, Pavlodar, Shymkent, Burabay.

Nevertheless, small and medium-sized businesses in Kazakhstan continue to experience serious difficulties and it is necessary to work consistently to overcome it. First of all, it is further improvements in legislation, financial support, increasing the effectiveness of regional development programs, removing administrative barriers and overcoming corruption, increasing innovation potential and developing of entrepreneurial education.

**CONCLUSION on 2.3**

When a company is developing rapidly, it faces the need to optimize business processes systematically, sooner or later. It is optimal that the optimization of business processes becomes a permanent process. Most of the most significant trading companies have already decided that this is exactly what will happen. **[Franchise 2011 / Contributing Editor P.F. Zeidman. DLA Piper LLP (US), 2010].**

Most retailers have now changed the vector of development from an active external expansion to internal improvement of their activities, which means improving business processes. Intensive development of the industry, dynamic growth of companies, their consolidation - these are the main points that characterized the domestic retailers. However, the period of rapid growth in the industry ended. The growth of consumer demand slowed, and with it the growth rates of companies, their net income, retail space and the number of stores in the network. The financial crisis has led to an increase in the cost of services.

Turnover of the retail trade from the beginning of the 2000s

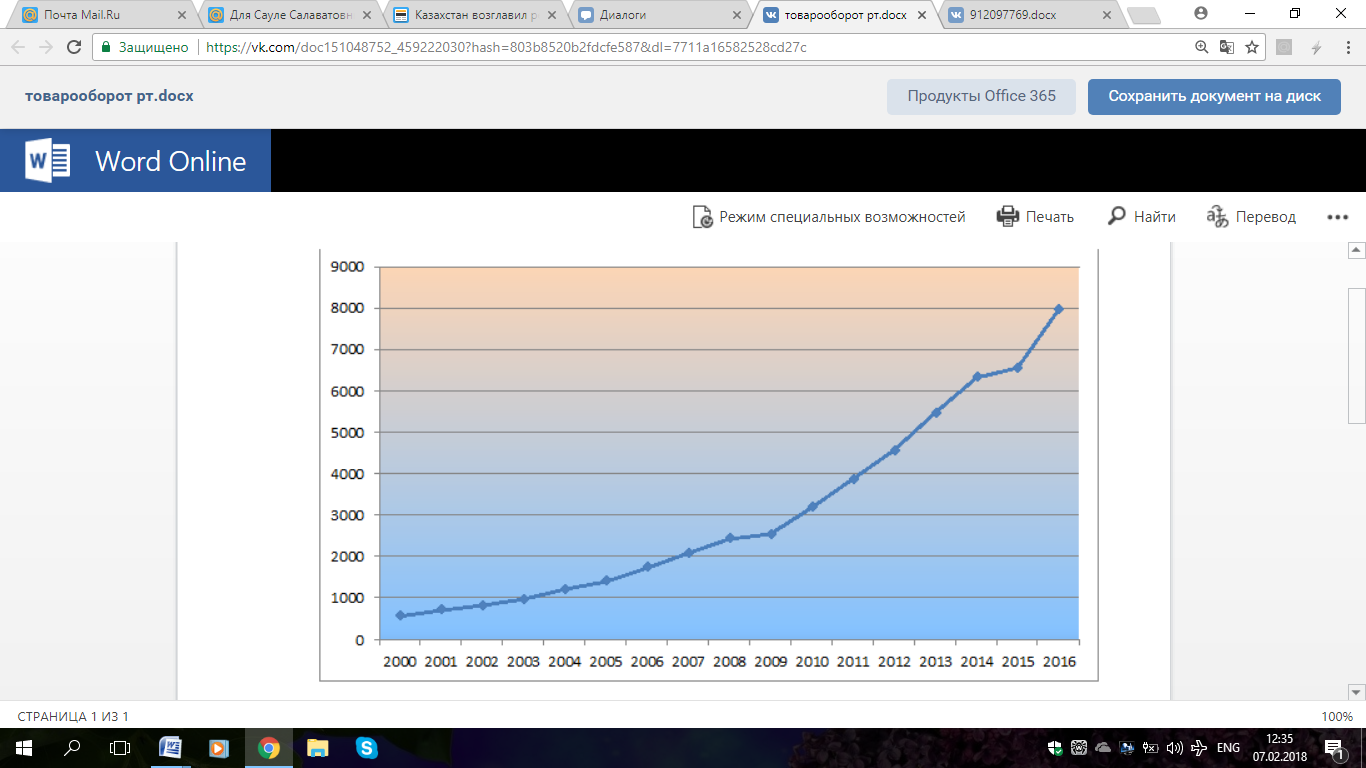


Figure 7. Dynamics of the volume of retail trade in value terms, KZT billion

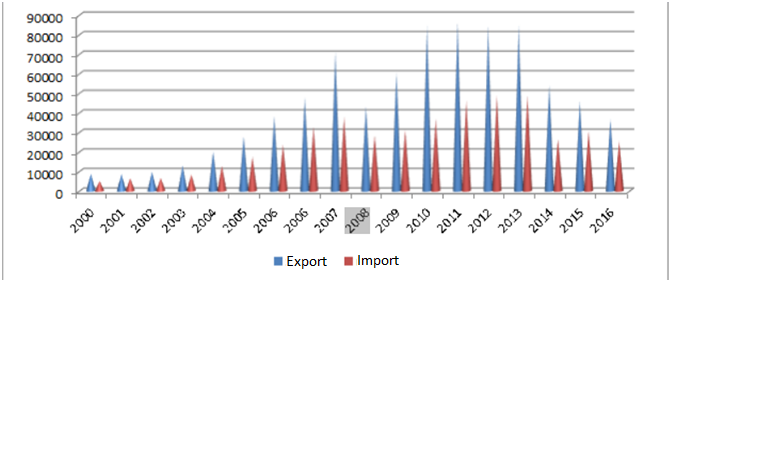
Note: Compiled by the author on the basis on the data, submitted by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

Figure 8. Dynamics of the foreign trade turnover of the Kazakhstan.

Note: Compiled by the author on the basis on the data, submitted by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

As we can see from the figure above, there was a tendency to increase the total volume of the retail in Kazakhstan before 2014. While in 2004 it accounted for 1,218,922.8 KZT million, in 2005, it increased by 15%, in 2006 by 23%, and by the end of 2014 this indicator increased 5 times by comparison with 2004, which was 6332252,984 KZT million. There is a small stagnation of the retail market in 2008-2010 in relation to the devaluation of 2009. From 2014 to 2016, there is a decrease in the foreign trade turnover of Kazakhstan generally. In terms of exports, in 2016, the foreign trade turnover declined by 32% compared to 2014, and, in import, by 4%. Although in imports in 2015 compared with 2014 shows an increase of 1.15%.

Import

Export

In the structure of the retail in 2016, the share of non-food goods amounted to 72%, the share of food products - 28%. The dynamic of growth on individual commodity group are presented in the following figure. Inflation since the beginning of the year (November 2017 to December 2016) was 6.3%. Prices for food products increased by 5.3%, non-food products - by 8.4%.

In 2014, the number of large retail properties in Kazakhstan was 203 with the total area of 753542 sq. M. (table 2).

Table-2 The number of retail properties with a trade area of at least 2000 square meters

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Regions | 2015 | | | 2016 | | |
| Number | Propor-tion (%) | Trade area | Number | Propor-tion (%) | Trade area |
| Akmola | 1 | 0,4 | 3905 | 1 | 0,3 | 3905 |
| Aktobe | 18 | 10,5 | 98086 | 17 | 8,2 | 93544 |
| Almaty (reg.) | 5 | 1,6 | 15176 | 8 | 2,4 | 27331 |
| Atyrau | 10 | 3,5 | 32395 | 11 | 2,9 | 32901 |
| West Kazakhstan | 5 | 3,2 | 29783 | 8 | 4,2 | 47913 |
| Jambyl | 5 | 1,8 | 16653 | 5 | 1,3 | 14897 |
| Karaganda | 25 | 9,4 | 87863 | 21 | 7,0 | 80509 |
| Kostanay | 13 | 4,7 | 43400 | 11 | 3,8 | 43698 |
| Kyzylorda | 2 | 0,5 | 5058 | 2 | 0,4 | 5058 |
| Mangystau | 6 | 1,6 | 14564 | 5 | 1,2 | 13478 |
| South Kazakhstan | 15 | 5,3 | 49281 | 19 | 5,3 | 60738 |
| Pavlodar | 10 | 5,0 | 46094 | 12 | 4,4 | 49989 |
| North Kazakhstan | 2 | 0,6 | 5891 | 2 | 0,6 | 6731 |
| East Kazakhstan | 22 | 8,7 | 80596 | 23 | 7,0 | 80846 |
| Almaty city | 56 | 27,2 | 253076 | 84 | 37,4 | 429448 |
| Astana city | 39 | 16,0 | 149367 | 39 | 13,6 | 156436 |
| The Republic of Kazakhstan | 234 | 100 | 931188 | 268 | 100 | 1147422 |
| Note: Compiled by the author on the basis on the data, submitted by the Committee on Statistics of the Ministry of National Economy of the RK | | | | | | |

As we can see from the above-mentioned table, in 2015 27.2 % of retail properties were concentrated in Almaty city, with a total area of 253076 sq.m and 16% in Astana with a total area of 149367 sq.m. Then, in Aktobe region - 10,5%, Kapaganda region with share of 9.4%.

In 2016, the number of retail objects in the city of Almaty increased by 37.4% and the total trade area increased by 70%. In Astana, number of retail objects increased by 4,7%, the total trade area increased by 20%. In general, in the Republic of Kazakhstan, number of retail objects increased by 23,2 %, the total trade area increased by 14,5%.

Kazakhstan is in the middle of the rating list, which has been made on the basis of analysis of the AT Kirtney consulting company. Kazakhstan decreased its position by 6 points in comparison with 2014. According to this rating, our republic raised its positions in 2014 in comparison with 2012, from the 19th place to the 10th place. Position in this rating based on such indicators as the attractiveness of the market, country risk, market saturation, speed of distribution, Global Retail Development Index. So, in terms of the saturation of the market Kazakhstan shows the result of 62.9 points, the speed of retail distribution - 47.9, attractiveness of the market - 45.1, country risk - 37.5. According to the report of A. T. Kirtni on ranking of Global Retail Development Index, Kazakhstan's business climate is improving due to natural resources, participation of the Eurasian Customs Union with Russia and Belarus, although it has income differences and small population. In his opinion, the slowdown growth rates of GDP, currency devaluation complicate the entry of foreign retailers on the local market, nevertheless, Kazakhstan is quite attractive for expansion at the moment [2].

Nowadays, stimulating the increase in the number of modern shopping areas and their share in the total turnover of retail trade, convergence of remote producers with the main distribution channels, increasing transparency of trade and awareness of market participants, as well as increasing the participants` skills level are important for the development of trade in the Republic of Kazakhstan. Modernization of Kazakhstan's trade sector is aimed to bring it up to modern international trade requirements and assistance to trade logistics with minimal transaction costs. It should be noted that in recent years there were facts of closing franchising networks, for example, we can note the "Pyaterochka" - supermarkets network, "Vester" retail chain, “SM Market" retail network , "Sbarro" the master franchise, "Le Futur" - “Marvelous shop”, "Red Cube", a "Coffee Tong" coffee house, "Tinkoff" breweries restaurants, "ESPRIT" fashion-retail. The main reasons of closing these franchises were irrational solutions in the field of network, transport burdens or barriers, non-organized logistics, the economic crisis, participants of the franchising channel were not motivated to increase competitiveness.

Research shows, that retail has opportunities for growth in The Republic of Kazakhstan, but it is necessary to solve legislative issues. Also, it is needful to pay attention to the qualifications, trainings and retrainings for the stuff. It is necessary to introduce new technologies of management and creation of conditions for development of both domestic commodity producers and own retail networks. Development of franchising in retail can give an excellent push of retail trade, already with well-trained management.

There are not enough of quality retail space and food courts for full-fledged opening of franchise points. Today, besides the Mega Center and a couple of other malls, it is difficult to find suitable retail space in the city for international brands of retail or fast food [2].

Practice shows, that factors like living standards, organization of logistics, access to financial resources, unconsolidated market affect the development of retail a lot.

The largest companies in the food segment of the network retail in Kazakhstan are: Metro Cash & Carry, Green, Ramstore, Interfood. There are also local networks, based only in a certain region: Magnum (Almaty, Karaganda), Small (Almaty), «Astykzhan» (Astana), "Yuzhniy" (Karaganda), "Rubicon" (Pavlodar) and others. In household electronics and home appliances segment the major share of the market is divided between several players – «Sulpak», «TechnoDom», «The Electronics Planet», and recently appeared «Mechta». In the DIY (do-it-yourself) format one of the most noticeable - "Megastroy" company, which has its own supermarkets in 7 cities of Kazakhstan. Also we can note the largest building material stores in The Republic of Kazakhstan. These include: «12 mesyacev», «Stroymart», «Nurtau-A» network stores. Also, French hypermarkets of construction and finishing materials, "Leroy Merlin" store, are developing on the local market.

There are far more fashion-retailers than others: the main companies are Union Space (Bestseller, Mexx, NewYorker), Inditex (Zara, Pull & Bear, Massimo Dutti, Bershka and Stradivarius), Finn Flare, Sela, Benetton Group and others. During the crisis many networks in Kazakhstan have revised its activity, having changed from supermarkets to discounters or in hypermarkets, but already with low prices. For example, "Ramstore" supermarket, which was considered as a premium-class supermarket for a long time, have changed the pricing policy downward, the "Ramstore-Hyper" stores appeared. Its purpose was not to lose a "low prices and big range" market segment. However, there still are premium-class networks, such as "Dastarkhan" with "Yubileiny" and "Stolichniy" grocery stores and Kazakh-German «Interfood» project, and it should be noted that they still work successfully.

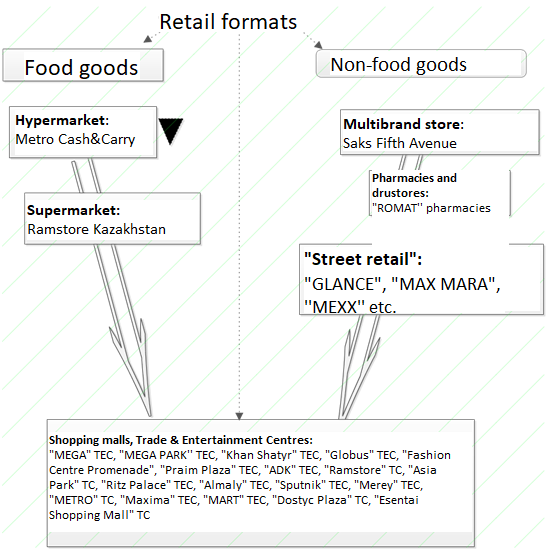
In the Republic of Kazakhstan, most of the franchise companies are mainly concentrated in retail. The main strategic goals of these companies are the expansion of outlets in various formats. Experience has shown that a lot of well-known brands developing in retail franchising are concentrated in shopping and entertainment centers.

Figure - Modern retail formats with franchise systems in the Republic of Kazakhstan. [Compiled by the author on the basis of studying the retail market in Kazakhstan]

So, after studying various retail formats with franchise systems, we came to the conclusion that generally, franchising networks develop in synthetic formats. These include: shopping and entertainment centers, shopping galleries and malls.

At the current stage, retailers are interested in franchising as a way to develop a stores network. This is due to the fact that it gives companies opportunity to save costs by opening their networks without attracting their own funds. As already noted, Kazakhstan and Russian companies’ attempts in the retail field at the current stage were not successful, and franchising projects’ appearance in the retail market were only part of the way of development on the market of our country.

With the help of field and desk research methods, the author of the work has studied the details of synthetic formats of retail located in the Republic of Kazakhstan. The choice of these formats was due to the fact that the highest concentration of franchising networks in retail is observed in synthetic formats (Figure).

Figure - Franchising networks in modern retail formats in the Republic of Kazakhstan [Compiled by the author on the basis of statistical analysis (see annex ????)]

The author has formed his own franchise base in retail. (see annex ???) According to the calculations of this analysis, more than 200 franchises were identified in retail in the Republic of Kazakhstan.

According to the analysis of the franchise base, 24 countries represent franchises in a synthetic format of retail (Figure).

European countries prevail in the number of proposed franchises in retail. This number amounts to 108 franchises in the sales of food and non-food products in synthetic formats of trade. It should be noted that the number of Italian franchises prevail among European countries (33 franchises). The number of franchises from France is 23, German - 13, English - 11.

The CIS countries franchises amount 25% of the total number of franchises. The number of Russian franchises is 43 units, which is 86% among CIS countries. In the context of countries, Russian franchises in retail have the largest number.

The structure of the product varieties of franchises in retail, represented in the Republic of Kazakhstan, gives us information about franchise market’s conditions in retail. (Figure?). The undeniable leader in this structure is clothes sales, which amount to 57%. Expenses for clothing, footwear and sports goods account for 12% of the total retail trade turnover, which is 2.4 trillion rubles in monetary terms.

Figure- Structure of product varieties of franchises in retail in the Republic of Kazakhstan [Compiled by the author on the basis of statistical analysis (see annex ????)]

So, as we can see from figure above, clothes constitute the main share (54%) in the structure of the product varieties of franchises in retail. The number of brands selling clothes on the basis of franchises is more than 100.

It should be noted that, in the analysis, there were identified two companies, "Biba" and "Cosmo Style", which originally are from Kazakhstan. The detailed analysis of this companies showed, that companies offer the sale of their franchises on the market under the terms of a standard contract, but in the Republic of Kazakhstan they are still represented by their own shops. It is worth noting that the "Biba" company, selling clothes for pregnant women, provides a franchise for the chain of stores "Modno byt beremennoi" in the Russian Federation. The company "Cosmo Style" at the moment only offers a franchise, but because of the influence of various factors, opening points on a franchise does not yield results. During this research, the work of a single store in the "Mega Almaty" TEC was stopped.

The development of franchising in our country is hindered by the following factors:

- The presence of an indispensable indicator that is difficult to reproduce. This indicator is the basis of the business proposal. These indicators include the development of business related to the mining or a unique geographical location;

- Impossibility of copying competencies and skills of key personnel of the company, because successful brand is based on the personal and professional skills of employees of the franchiser company;

- Strong support from the regional authorities, as a result - lobbying for the interests, which can affect the competitiveness of franchises;

- Factors associated with the complex specialization of processes, which requires the firm to make payments to R & D regularly, which in turn makes it impossible to transfer know-how, as it is the main part of business;

- Factors associated with the fact that the volume of investment is higher than the maximum amount of investment from franchises and the payback period is more than 3 years;

- Possibility of the company to cover the costs of opening its own enterprises on a large territory (several regions), as there are limited expansion boundaries or the development of the company by increasing its own production volumes less costly than franchising growth.

**CONCLUSION on 3.1**

Franchisors, who are interested in expanding their business, should be sustainable and economically viable. A franchisee will not enter the network unless it is confident of the profitability of the transaction. In franchising, system of economic relations is built on the basis of a successfully operating business in the market, a well-established technology of doing business with positive financial indicators.

Prospects for the development of franchising are appropriate if the following business indicators have positive results:

- The rate of increase profits;

- Efficiency dynamics by net income;

- Asset efficiency and its change.

Prospects for the development of franchising as a type of regional expansion will be positive, if they are provided that:

- Companies are focused on forced expansion;

- The volume of the market is big enough for development, as well as the strategic business unit or product/service has strengths relative to competitors in the long term;

- Business is appropriate for development in case of franchising system;

- An enterprise has the necessary financial and organizational capital for the development of franchising relationships or an enterprise has the opportunity to get it.

So, having formed a hypothesis, we conducted field research, the purpose of which was to assess the opportunities of Kazakhstan enterprises to develop their business in the franchising system. The results of this research allowed us to determine the prospects for the development of this form of entrepreneurial activity in the Republic of Kazakhstan.

The sample size was 262 small and medium business of the Republic of Kazakhstan, operating as legal entities and in various activities, from services to production. Sampling contours were the registers of enterprises, available on public Internet sources, specialized reference books. The methodology was based on a deterministic selection and an arbitrary method of calculating volume from the general population was used. The research tool was a questionnaire compiled by the authors, based on a careful criteria selection for assessing the ability of enterprises of Kazakhstan companies to work under a franchise.

The structure of the questionnaire includes six groups, each of which consisted of a different number of questions referring to the subject of study (Table 1)

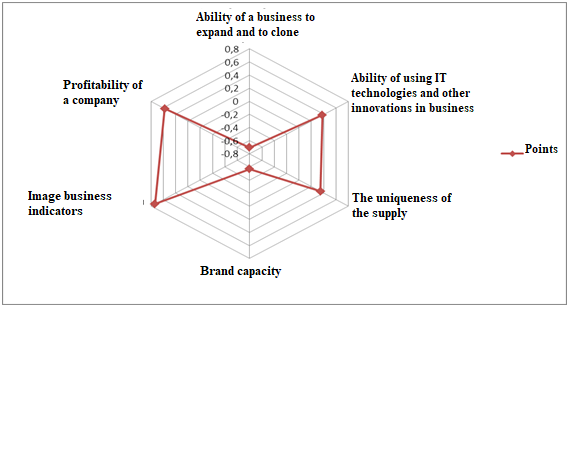
*Table 1*

*The structure of the questionnaire on the assessment of opportunity of doing business franchise in the Republic of Kazakhstan*

|  |  |  |  |
| --- | --- | --- | --- |
| 1. **Ability of a business to expand and to clone** | | | |
| **The production of goods / services and the effectiveness of your business are related to:** | | | |
| 1. | Development of business related to the mining or unique geographical location | yes | No |
| 2. | Support from regional authorities | yes | No |
| 3. | High competences and skills of company’s stuff | yes | No |
| 4. | Constant payments to R & D | yes | No |
| 5. | Company’s opportunity to cover the costs of opening its own enterprises on a large territory (several regions) | yes | No |
| 1. **Ability of using IT technologies and other innovations in business.** | | | |
| 1. | Existence of a well-developed system of logistic flows | yes | No |
| 2. | Availability of a well-developed marketing system | yes | No |
| 3. | Availability of application software designed to automate Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP). | yes | No |
| 4. | Presence of the electronic program of documents exchanging | yes | No |
| 5. | Use of information technologies (application programs) to improve business processes | yes | No |
| 6. | The presence of documents detailing the functional responsibilities of the company's employees and the characteristics of the work of the enterprise | Yes | No |
| 7. | Using a well-functioning employee incentive system, and the dealer system of motivation | yes | No |
| 8. | Use of incentive programs for clients, staff, intermediaries | yes | No |
| 1. **The uniqueness of the supply** | | | |
| 1. | The market already has similar offers like you or have goods - substitutes | yes | No |
| 2. | Use of a distinctive positioning strategy | yes | No |
| 3. | Your product supply has constant demand on the market | yes | No |
| 1. **Brand capacity** | | | |
| 1. | At least 40% of costumers know about your product or service | yes | No |
| 2. | Is your company ranked in various ratings at different geographical levels | yes | No |
| 3. | Perception of your brand on clear criteria (if customers were asked) | Yes | No |
| 4. | Your advertising activities are conducted effectively | Yes | No |
| 1. **Image business indicators** | | | |
| 1. | Appearing in industry ratings. | Yes | No |
| 2. | Presence of the regular communication policy of the company with customers and business partners | Yes | No |
| 3. | The presence of positive feedback about the company, certificates, etc. | Yes | No |
| 4. | Participation in industry seminars, conferences and exhibitions | Yes | No |
| 5. | The presence of patents, diplomas on special awards and other supporting documents on the award of something | Yes | No |
| 1. **Profitability of a company** | | | |
| 1. | After covering all the costs of opening a business, it shows a positive and stable growth dynamics for gross profit, net profit, sales are effective for 3 years | yes | No |
| 2. | After covering all the costs of opening a business, it shows a negative dynamics of growth in gross profit, net profit, sales are not effective for 3 years | yes | No |
| 3. | A certain number of companies that are your customers bring from 20% or more of revenue | Yes | No |
| 4. | There is a stable growth in the list of individual consumers or client companies | Yes | No |
| Note: compiled by the authors | | | |

So, we used a scaling of measured objects in marketing researches for effective realization of survey and interpretation of the received data. An incomparable scaling was used for this questionnaire. It is the method consisting of an independent evaluation of each object and its characteristics, that is, the object is evaluated separately from other similar objects, as a result of which scores are assigned using certain scale [1]. Respondents, who were managers of selected companies, had to put a mark on one of the five marks of the scale, from -2 to 2. Each mark suggests the most acceptable answer to the proposed «yes» or «no» options in the above questionnaire.

Thus, the results of the scores in all six criteria groups, based on the survey of top managers of 262 small and medium companies in the Republic of Kazakhstan, we presented in the figure (Figure 1)

*Figure 1. The results of questioning of top managers of 262 small and medium-sized companies in the Republic of Kazakhstan to assess the ability of doing franchise business.*

*Note: Compiled by the authors*

Analyzing the collected information, we can form the following conclusions:

- The ability of Kazakh companies business to grow is limited, that is, the entire business model can not be transferred to individuals through copying. Kazakhstan companies can clone separate control elements. In this case, the technology of distribution franchising can be used for manufacturing companies that invest on an ongoing basis in research projects;

- In Kazakhstan companies, the ability to use IT and other innovations developed only by individual components. Companies need to develop and standardize those components of the business process mechanism and to introduce new components that meet the requirements of new business trends;

- The uniqueness of the supply is not developed, as many companies do not have a unique trade supply and strategic plans for positioning, or their unique supply for a product or service is not in high demand or there is not demand completely. In such circumstances, goods or services of Kazakhstan companies that have analogues in the market need to form additional use value, and goods or services that do not have analogues on the market, need deep research to identify the hidden demand in the market or changing the promotion strategy;

- Kazakhstan companies have brand capacity, the advertising activity is effective, the communication system is good, positioning strategies are developed, but it is worth noting that the scores above zero are not so high;

- the level of image policy in companies is developed, but not so much, that companies are highly efficient in this direction, since the sum of points on this criterion is only 0.7;

- The profitability of Kazakhstani companies makes it possible to rent their franchisee brand, but the "yes" answers to the third question of the sixth group mean that companies are focused on working with "important customers" only. This fact negatively affects the level of business readiness to expand through franchising.

Based on the results of the conducted studies, it can be concluded that the specifics of franchise network creation and development depend, generally, on the «heart» of the business, which is a prototype. The concept of business, the degree of simplicity and replicability of the product, as well as the degree of standardization of the company's business processes determine the characteristics of franchising as a way to realize the expansion strategy, namely:

1. Type of franchising;

2. Advantages of franchising type of expansion;

3. Features of interaction with the franchisee [2].

The results of the study were inscribed in the summary table of favorable or limiting indicators for Kazakhstan companies to develop franchise business (Table ??).

Table

Favorable or limiting indicators for Kazakhstan companies to develop franchise business

|  |  |  |
| --- | --- | --- |
| Indicators | Favorable indicators | Limiting indicators |
| 1. Ability of a business to expand and to clone | Development of business related to the mining or unique geographical location;  Company’s opportunity to cover the costs of opening its own enterprises on a large territory (several regions). | Constant payments to R&D. |
| 2. Ability of using IT technologies and other innovations in business | Existence of a well-developed system of logistic flows;  Availability of a well-developed marketing system;  Availability of application software designed to automate Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP);  Presence of the electronic program of documents exchanging;  The presence of documents detailing the functional responsibilities of the company's employees and the characteristics of the work of the enterprise;  Use of incentive programs for clients, staff, intermediaries. | Use of information technologies (application programs) to improve business processes;  Using a well-functioning employee incentive system, and the dealer system of motivation. |
| 3. The uniqueness of the supply | Your product supply has constant demand on the market. | The market already has similar offers like you or have goods – substitutes; Use of a distinctive positioning strategy. |
| 4. Brand capacity | At least 40% of costumers know about your product or service;  Is your company ranked in various ratings at different geographical levels;  Perception of your brand on clear criteria (if customers were asked);  Your advertising activities are conducted effectively. |  |
| 5. Image business indicators. | Appearing in industry ratings;  Presence of the regular communication policy of the company with customers and business partners;  The presence of positive feedback about the company, certificates, etc. | Participation in industry seminars, conferences and exhibitions;  The presence of patents, diplomas on special awards and other supporting documents on the award of something. |
| 6. Profitability of a company | After covering all the costs of opening a business, it shows a positive and stable growth dynamics for gross profit, net profit, sales are effective for 3 years. | A certain number of companies that are your customers bring from 20% or more of revenue;  There is a stable growth in the list of individual consumers or client companies. |

Thus, the number of constraints affecting the ability of Kazakhstan companies to develop a business under a franchise is less. But, the score for all six groups is closer to zero or neutral. In our opinion, the stages of these criteria are still developing, so the growing potential needs to be strengthened in different directions.

The author developed a matrix of strategies for expanding franchising business, based on the results of the research which takes into account the types of companies. In turn, this matrix will allow us to determine the prospects for the development of franchising in our country.

Based on the results of the conducted studies, it can be concluded that the specifics of franchise network creation and development depend, generally, on the «heart» of the business, which is a prototype. The concept of business, the degree of simplicity and replicability of the product, as well as the degree of standardization of the company's business processes determine the characteristics of franchising as a way to realize the expansion strategy, namely:

1. Type of franchising;

2. Advantages of franchising type of expansion;

3. Features of interaction with the franchisee ["How to pack business under franchising: practices and recommendations", analytical studies of the Group of Companies "Training Institute - ARB Pro", 2011]. **[«Как упаковать бизнес под франчайзинг: практики и рекомендации» аналитические исследования Группы Компаний «Институт Тренинга – АРБ Про», 2011 г.].**

Table

The matrix of strategies for expanding the business of franchising.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Types of companies** | **Types of franchising systems** | | | | | |
| Production franchising | Sales franchising | Commodity franchising | Conversion | Master franchise in the region | Business- format of franchising |
| A Type | The company must have the know-how technology for the production of goods, if the transportation of individual elements of the product is cheaper than the transportation of finished products | Strengthening of own retail as the most  sustainable sales channel. | Sales of manufactured goods under the brand name of a franchisor, provided a strong brand or production of quality goods;  Strengthen the service component if the manufactured goods require after-sales service (usually uncomplicated) | An enterprise that works in the market has some experience in its field decides to enter the system of franchising enterprises, which is controlled by one franchisor;  Conversion of a non-selective marketing system into a selective. | Expansion of business in a certain region. |  |
| B type | Provision of franchisee  with access to intellectual property . | Distribution with a service component and in a strictly limited area. | Obtaining an exclusive right to sell certain goods from the assortment if the franchisor has a strong innovative component and protection of rights, the ability to form demand. |  |  |  |
| C Type |  |  |  |  | The sub-franchisor performs all the work of the franchisor, connected with researching the market of the region, looking for the necessary premises for doing business, trainings, etc. Franchisees work mainly with the sub-franchisee, and not the general franchisor | The franchisor and the franchisee work according to a unified management system, with strict observance of standards from franchisee and comprehensive support from franchisors. |
| D Type |  |  |  | Franchisees enter into contract, under which, they will sell the product or service exclusively or in their own way with strong support from the franchisor (marketing, trainings, access to a full range of franchisors’ services: CRM system, participation in events, exhibitions, etc.) | A single franchise in the form of providing only one franchisee with an indication of the territory and excludes the possibility of providing other franchisees, but does not exclude the possibility of operating this franchise by the franchisor himself in the franchisee's region. |  |

A Type companies are companies that produce technologically uncomplicated products (food products, light industry (textiles, clothing), furniture, household chemicals, building materials, etc.)

B Type companies - companies that manufacture technologically sophisticated products (cars, medical equipment, optical devices, computers and its components, aggregates, etc.)

C type companies – are simple service companies that provide services of a permanent nature (trade or retail, tourist services, catering services, accommodation services, printing services, real estate services, household services, etc.)

D Type Companies - professional services companies specializing in the selection of personnel, business coaching, the provision of advertising, financial services (services in the field of taxation, accounting), consulting services (for ex. about cost optimization), repairing of complex equipment and etc.

Thus, it is possible to make the following forecasts for the development of franchising in Kazakhstan, taking into account the type of companies and types of franchising systems (Table).

Table

Forecasts for the development of franchising in Kazakhstan, taking into account the types of companies and types of franchising systems.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business area | Number in 2017 | Forecast characteristics | | |
| Increase in 2018 | Type of a company | Type of a franchising system |
| Retail of goods categories | 202,5 | 225 | С | Master-franchise, business-format franchise |
| Services (including catering) | 135 | 150 | С | Master-franchise, business-format franchise |
| Mixed forms (production + trade, services + trade) | 103,5 | 115 | C, D | Trade franchising with service component, master-franchise, business-format franchise |
| Production | 9 | 10 | А, В | Production, trade, goods franchising, conversion, master-franchise in the region |

So, it can be considered that there is a small potential for development of franchising in Kazakhstan, which can become an effective tool for reaching government program goals, increasing the competitiveness of business structures.

**CONCLUSION on 3.2**

The organization, introduction, development of franchising in cities and regional centers of Kazakhstan can affect the innovative development of regions, the use of previously unused business technologies, the organization of business activities and the improvement of business culture in them.

Regional government structures usually should be interested in developing of franchising through legislative participation, for example, establishing local tax deductions for franchisors and franchisees, organizing joint programs with second-tier banks for concessional lending for franchisees, according to investment programs for the development of the region, connection between regional government structures and franchisors (regular market research, search and involvement of entrepreneurs, who are interested in buying or selling a franchise, in the region, participation in monitoring of business processes).

So, it is possible to identify measures that can be taken by regional government structures:

- The search of contacts with franchisees in order to attract them to the region, as well as cooperation in the process of preparation of normative and legal acts about conducting franchising business.

- Assistance to local large business with the aim of regional expansion through the opening of franchising networks.

- Search for foreign franchisors for investment in the regions and the selection of franchisees for franchisers.

- Organization of sub-franchising work and assistance in appearance of pilot projects on franchise. Participation in the organization of technical issues, for example, in the transportation, storage and banking services for entrepreneurs.

- Conducting exhibitions, conferences, round tables, forums with participation of representatives of state structures, businessmen, public and international organizations.

- Establishment of favorable conditions for renting franchisees in industrial and commercial areas, as well as assistance for opening long-term leasing, signing leasing agreements and privatizing buildings.

In addition, franchise projects are subsidized. Under this program, the lending rate is 14, 65% per annum, of which 7% can be subsidized if the activity is the priority sectors of the economy of the Republic of Kazakhstan.

Representatives of the Ak Jol party consider that international franchising – is an instrument for the integration of Kazakhstan's small and medium-sized businesses into global production and distribution networks. President instructed to achieve an increase in non-raw-materials exports twice by 2025. And this means that the head of the state - Nursultan Nazarbaev, suggests not to reopen opened items, but to integrate into global chains of production and selling of goods and services. This should be done primarily through the involvement of transnational companies. [https://kapital.kz/business/57196/v-kazahstane-nado-aktivnee-razvivat-franchajzing.html].

Evaluation of the factors of franchising innovative attractiveness.

Franchising companies do not influence the development of industrial innovation, but they bring innovation to management. In our country there is a tendency to increase investments in innovations in the raw materials sector, but not in the production and service sectors. One of the most significant institutions for the development of innovative activities of companies is the Park of Innovative Technologies. At the present stage this park works with 162 companies. The aim of the park is to attract 1 tenge of foreign investments for 1 tenge of already invested funds. The purpose is the consolidation of the innovative potential. According to our research, 31 innovative projects were funded from venture capital of subsoil users.

Unfortunately, Kazakhstan's statistics can not give us complete information for assessing the investment attractiveness of regions of our country and sectors of the economy. The lack of data can not help us analyze all the indicators at the macro and micro levels.

Traditional expansion of the organization through the development on the new territories can hardly be called an instrument of innovation development. It is considered that the growing in geographical terms testifies to the extensive growth of the company. This is especially true for retail trade enterprises - store chains.

At the same time, increased competition and increased risks from the environment stimulate the development of retail chains outside the traditional framework, primarily through the integrated introduction of innovations. Under the new conditions, the regional expansion becomes the method of transition to innovative development **[Russian Entrepreneurship No. 8/2010 Strategic foundations for regional expansion of retail retail chains Kleimenov DO, Salun OI].**

[«Российское предпринимательство» № 8 / 2010 Стратегические основы региональной экспансии торговых розничных сетей Клеймёнов Д.О., Салун О.И.].

The expansion strategies in retail are: deepening in the market, the development of the format, regional expansion through franchising and the development of multi-format trading.

The main ways of distribution of retail chains for the sale of food products are the purchase of ready-made networks of various formats and franchising. Based on the study of the characteristics of each strategy above, a matrix of formation of these strategies on the basis of the form of trade and market organization was developed. (Figure ??).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | **Forms of trade organization** | | |
| **Constant** | **New** | **Restructured** |
| **Market** | **New** | Deepening in the market | Format’s differentiation strategy | Standartization of retail. |
| **Existing** | Regional expansion through franchising and integration. | Development of synthetic retail format, franchising | New goods selling |

Figure - The matrix of the formation of strategies for the development and expansion of retail **[Compiled by the author on the basis of Pavlov A.N. Managing the company's innovations // Project management.- 2007. - No. 10. - P. 26-31 .. Strategic alternative - the first step on the way to leadership (According to the materials of the Consulting Bureau "BBPG-Consulting") // My case. - 2002. - No. 10 (37). - P. 28-29, 42., Thompson A., Strickland A. Strategic Management. The art of developing and implementing a strategy: A textbook for high schools. / Transl. with English. - M.: Unity, 1998. - 576 p.]**

[Составлено автором на основе Павлов А.Н. Управление инновациями компании // Управление проектами.– 2007. – № 10. – С. 26–31.. Стратегическая альтернатива – первый шаг на пути к лидерству (По мате риалам Консалт-бюро «BBPG-Консалтинг»)// Мое дело. – 2002. – № 10 (37). – С. 28–29, 42., Томпсон А., Стрикленд А.Стратегический менеджмент. Искусство разработки и реализации стратегии: Учебник для вузов. /Пер. с англ. – М.: Юнити, 1998. – 576 с.]

The above strategies are the basic guidelines for entrepreneurs to formulate strategies for the growth of the firm and achieve its competitiveness.

  In the regions there is an increase in the number of innovative-active enterprises. As a result, demand is directed towards new markets and new products, business technologies, know-how, and this means also the organization of new forms of retail.

Table

Sector-specificity of retail, depending on the rates of regions development.

|  |  |
| --- | --- |
| **The rates of regions development** | **Sector-specificity of retail** |
| Not developed or average socio-economic indicators and lack of innovative development | - mass consumption goods or food segment;  - tourist services;  - drugstores. |
| Average innovative development and average indicators of economic growth | Technologically simple products and services:  - light industry (textiles, clothing);  - furniture;  - household chemicals;  - Construction Materials;  - Dry cleaning. |
| High or stable socio-economic indicators and the existence of a significant development of innovation indicators | - Technologically complex products and professional service;  - New products/services or products with a unique trade supply. |

And, as we see, franchising as a kind of regional expansion can be used as a universal strategy, which proves its relevance.

So, after studying the specifics of the expansion of retail trade through various strategies and forms of organization, we assessed the investment attractiveness of the regions of the Republic of Kazakhstan for retail development. The results of the research can be used in projects for the development of retail franchising in the regions of Kazakhstan.

The purpose of the desk research was the construction of mathematical models that made it possible to predict the development of retail in the regions of the Republic of Kazakhstan, the identification of factors affecting the expansion of retail networks, as well as the identification of the regions of the country with the highest development potential, including innovative development. The methodological framework of the study was the studies **of S.A. Balashova, O.A. Zueva [S. A. Balashova, OA Zueva "Evaluation of the influence of regional factors on the distribution of trade networks in the Russian Federation", Journal of Applied Economics, No. 4 (24) 2011], Verbika M [Verbik M. (2008). A guide to modern econometrics. M .: The scientific book. "The Library of Solev."], Dougherty K. [Dougherty K. (2009). Introduction to Econometrics. M .: INFRA-M.].**

Методологической базой исследования была выли выбраны исследования С. А. Балашовой, О. А. Зуевой [С. А. Балашова, О. А. Зуева «Оценка влияния региональных факторов на распространение торговых сетей в РФ», Журнал «Прикладная экономика», № 4 (24) 2011], Вербика М [Вербик М. (2008). Путеводитель по современной эконометрике. М.: Научная книга. «Библиотека Солев».], Доугерти К. [Доугерти К. (2009). Введение в эконометрику. М.: ИНФРА–М.].

**The methodology and source data.**

The development of retail in the regions is influenced by demographic, socio-economic, political and technological factors. Complex analysis of these factors is complicated by the fact that the regions of the Republic of Kazakhstan are different in terms of natural and climatic conditions, logistic conditions, differentiation of agricultural indicators and the level of localization of production structures. Some of the above factors were not included in the regression equation, since the level of them can not be determined.

The author collected data for 14 regions and 2 cities of national importance of Kazakhstan for the period 2011-2016, which were united into panel.

Constructing of the model.

Determine the dependent and independent variables of the equation:

Y1= RTL - retail value; (at current prices, KZT m.);

The following factors are considered as observable independent variables:

X1=POP - annual average population (000s);

X2= INC - average per capita nominal monetary income of the population (KZT per month);

X3= GRP - gross regional product (at current prices, KZT million);

For the modeling of the development of retail networks in the regions, the following factors were also used:

X4= CRDT – Debt on loans in tenge, less housing loans (at the beginning of the year, KZT million);

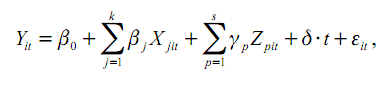
X5= INV - investment in fixed capital in retail (KZT million);

X6= RAINV – share in the total Kazakhstan investment potential, %;

X7= RARISK - weighted average risk index;

Secondary data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan **(Kazakhstan Statistical Yearbook, 2016)** (Казахстанский статистический ежегодник, 2016)- variables Y1, X1- X5, rating agency "Expert RA Kazakhstan" (- variables X6, X7) were used in the modeling.

Also, the panel data analysis model or the Dougherty regression model **[Dougherty K. Introduction to Econometrics. - 3rd ed. - M .: INFRAM, 2010]** [Доугерти К. Введение в эконометрику. - 3-е изд. - М.: ИНФРА- М, 2010]. was used in the research.



where **Y** is the dependent variable; **Xj** are observable independent variables; **Zp** are unobservable independent variables, **e** is a random term that satisfies the usual assumptions of the regression model **(Verbic, 2008).** (Вербик, 2008) The **t** trend is introduced to account for changes in the time of the free term.

To analyze the modeling coefficients, several hypotheses were made:

- The unobservable independent variables do not affect the development of retail, they are estimated through the observed variables;

- The unobservable independent are correlated with regional characteristics and do not change over time;

To find the relationship between retail turnover (RTL) and the specified variables for regions, the model (1) was analyzed.

So, the following model was built:

- The model with observable variables:

RTL= ᵝ0+ ᵝ1 POPᵢͭ + ᵝ2 *INC* ᵢͭ + ᵝ3 GRP ᵢͭ (1)

The multiple regression model was estimated by the method of least squares in 14 regions and two cities of national importance for 2012-2016.

In our modeling, the models for each year were calculated separately, since with a separate calculation for each year we obtained comparable results. Analysis of the data for five years showed that the closest relationship is observed between the gross regional product and the retail trade volume, the average ratio of pair correlation for six years is 0.88. The multiple regression equations were constructed according to the data of each year.

The results of this analysis also allow us to consider that there is a linear relationship between the variables. The statistical evaluation was carried out using the Cheddock criteria scale [CHADDock, R.E. [1925). PRINCIPLES AND METHODS of STATISTIcs. 471 p., Illus. Boston, New York, [etc.]. CRoxton, F.E. 1925.]. Results for each analyzed year are presented in the following table ????

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Independent variables (regressors) | Ratio of pair correlation | | | | | Indicators of relationships (Chaddock criteria scale) |
| 2012 | 2013 | 2014 | 2015 | 2016 |
| X1 | 0,30 | 0,32 | 0,36 | 0,36 | 0,35 | average |
| X2 | 0,38 | 0,40 | 0,38 | 0,44 | 0,42 | average |
| X3 | 0,85 | 0,86 | 0,87 | 0,90 | 0,90 | high |
| *Note: compiled by the author on the basis of annexes 1,2,3,4,5* | | | | | | |

The relationship between independent variables, annual average population, average per capita cash income of the population and retail trade volumes is average for five years, and for 2012 is weak.

The relationship between the independent variables - the gross regional product and the retail trade volumes - is high and shows the trend to increase. This high value of pair correlation in our model is due not only to the cause-effect relationships, but also to the existence of unobservable variables that are included in the observed regressors. Also, the reason for the high correlation with regional characteristics can be the presence of an increasing trend.

According to the developed model, the estimated values ​​of retail volumes are well approximated with the actual volume indicators, since the average value of the relative approximation error for 5 years is 0.08% (Table ??). The study of relative approximation errors gives us the opportunity to identify regions and cities that have good opportunities for extensive retail development. This development can be achieved due to the growth in sales of organized retail, namely, the intensification of the efforts of retail networks, the synthetic retail format or other formats of retail, including innovative ones.

Table

Indicators of average relative errors of approximation, average share in the total Kazakhstan investment potential and average values of risk indexes for a region or a city for 5 years

|  |  |  |  |
| --- | --- | --- | --- |
| Regions | Average value of relative errors of approximation, for 5 years, % | Average share in the total Kazakhstan investment potential, for 5 years, % | Average values of risk indexes for a region or a city, for 5 years |
| Akmola | 0,26 | 3,63 | 0,41 |
| Aktobe | 0,22 | 5,23 | 0,31 |
| Almaty (reg.) | 0,11 | 5,05 | 0,34 |
| Atyrau | -0,58 | 8,66 | 0,34 |
| West Kazakhstan | -0,40 | 4,98 | 0,42 |
| Jambyl | -0,14 | 2,99 | 0,46 |
| Karaganda | 0,05 | 8,28 | 0,45 |
| Kostanay | -0,05 | 4,97 | 0,36 |
| Kyzylorda | -0,40 | 3,57 | 0,39 |
| Mangystau | 0,98 | 4,88 | 0,39 |
| South Kazakhstan | -0,25 | 5,80 | 0,43 |
| Pavlodar | 0,06 | 5,22 | 0,40 |
| North Kazakhstan | 0,49 | 3,03 | 0,50 |
| East Kazakhstan | 0,37 | 6,85 | 0,39 |
| Astana city | 0,49 | 8,98 | 0,34 |
| Almaty city | 0,02 | 18,47 | 0,40 |
| Average value | 0,08 | 6,29 | 0,40 |

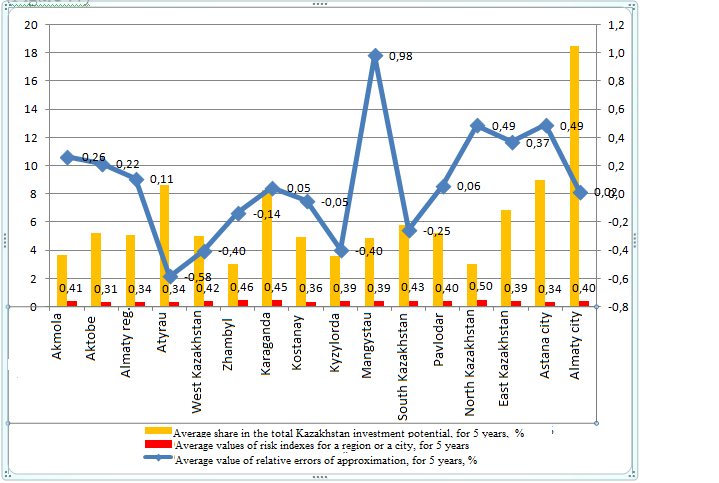
The data of the table is transferred to a combined graph for exploring the linkages (Figure ??)

Figure - ??? The relationship between the relative errors of approximation, the average share in total Kazakhstan investment potential and the average values of the risk indexes for a region or a city for 5 years

[Compiled by the author on the basis of Annexes 1,2,3,4,5]

From the figure above we can see that relative positive approximation errors have been obtained for regions with normal average risk indexes and a relatively small share in the common investment potential (Mangystau, North Kazakhstan and Astana). However, it should be noted that the share in the total investment potential in the city of Astana is not bad - 8.98% and the average value of the risk index in comparison with other regions is not high.

According to this assessment, regions and cities with negative relative approximation errors, a significant share in the total investment potential (more than 5%) and low investment risk indexes (<0.43) are most prospective.

These are: Atyrau, West Kazakhstan, Kostanay, and although Almaty does not have negative approximation, it is about 0, the highest investment potential and low risk indexes are there (Figure ??)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **The index of potential.** | 0,10 | 1А  High potential – minimal risk | 1В  High potential - average risk  **(Atyrau region, Astana, Almaty)** | 1С  High potential - high risks  **(Karaganda region)** |
| 0,07 | 2А  Medium potential - minimal risk  **(Aktobe region)** | 2В  Medium potential – Average risk  **(Almaty, Pavlodar and East Kazakhstan regions)** | 2С  Medium potential - high risks  **(South Kazakhstan region)** |
| 0,05 | 3А  Low potential - minimal risk  **(North Kazakhstan region)** | 3В  Low potential – average risk  **(Kostanai, Kyzylorda, Mangystau, West Kazakhstan regions)** | 3С  Low potential – high risks  **(Akmola, Zhambyl regions)** |
| 0,02 | 0,27 | 0,34 | 0,43 0,48 |

Figure - ???. The matrix of the average investment rating for the regions of the Republic of Kazakhstan for the last 5 years [Compiled by the author on the basis of the methodology and the "Expert RA Kazakhstan" agency data]

For mainstreaming of the generated hypothesis, a separate model for the retail volume was investigated.

The modeling of retail volumes of commercial networks in the regions of the Republic of Kazakhstan.

For the modeling of retail volumes for commercial networks, qualitative indicators for regressors were used only in those regions where the share of network retail is at least 5% of the total retail volume.

We used data for five regions and two cities of national importance over the past five years for observation.

In the equation, the following regressors were used:

X1=CRTD - consumer debts (m., KZT);

X2= INV - The volume of investments in wholesale and retail trade (m. KZT);

X3= RAINV - hare in the total investment potential,%

To find the relationship between retail turnover (RTL) and the specified variables for regions, the model (2) was analyzed.

So, the following model was built:

- the model with observable variables:

RTL= ᵝ0+ ᵝ1 *CRTD*ᵢͭ + ᵝ2 *INV* ᵢͭ + ᵝ3*RAINV* ᵢͭ (2)

The multiple regression model was estimated by the method of least squares in five regions and two cities of national importance for 2012-2016.

Interpretation of the regression coefficients for solving the system of equations can be presented as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Coefficients | 2012 | 2013 | 2014 | 2015 | 2016 |
| ᵝ1 | - 0,43 | - 0,06 | 0,05 | 0,15 | 0,81 |
| ᵝ2 | 0,04 | 0,01 | 0,01 | -0,01 | -0,03 |
| ᵝ3 | 0,04 | 0,01 | 0,01 | -0,01 | -0,03 |

It is worth noting that the average negative indicators of approximation for five years are revealed for Almaty, Karaganda, South-Kazakhstan regions (Table ???).

Table - ???

The average deviation of the calculated values from the actual values for 2012-2016.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Regions | A ϳ, % | | | | |
| 2012 | 2013 | 2014 | 2015 | 2016 |
| Aktobe | -0,04 | 0,29 | 0,16 | 0,10 | 0,07 |
| Almaty (reg.) | -0,01 | -0,16 | -0,09 | -0,02 | -0,04 |
| Karaganda | -0,14 | -0,07 | -0,05 | -0,10 | -0,13 |
| South Kazakhstan | -0,03 | -0,13 | -0,17 | -0,18 | -0,06 |
| East Kazakhstan | -0,03 | 0,13 | 0,21 | 0,20 | 0,10 |
| Astana city | 0,23 | -0,03 | -0,04 | 0,00 | 0,06 |
| Almaty city | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |

Further, using the same methodology, we perform a correlation analysis.

Results for each analyzed year are showed in the following table ????

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Independent variables  (regressors) | Ratio of pair correlation | | | | | Indicators of relationships (Cheddock criteria scale) |
| 2012 | 2013 | 2014 | 2015 | 2016 |
| X1 | 0,70 | 0,66 | 0,69 | 0,77 | 0,79 | High |
| X2 | 0,67 | 0,67 | 0,46 | 0,58 | 0,82 | Average |
| X3 | 0,1 | 0,1 | 0,1 | 0,1 | 0,1 | Low |
| *Note: compiled by the author on the basis of annexes 6,7,8,9,10* | | | | | | |

The relationship between independent variables, consumer debts on average over five years and retail volumes is high and direct, with the volume of investments in wholesale and retail trade is average, and with the proportion of total Kazakhstan potential is weak.

The results of the analysis on regression modeling show that consumer debts indices have the largest impact on the development of the retail network, that is, the larger the debt on loans, the greater is the volume of retail. This fact confirms our hypothesis that the development of the consumer lending system gives opportunity for network retailers to increase sales volumes. But, this indicator also includes the loan arrears, the volume of which increases during the period of economic crisis, and, as we know, the increase in amounts of loan arrears does not contribute to consumption growth, and therefore leads to a decrease in sales.

Moderate, direct influence has an independent factor - the volume of investments in wholesale and retail trade on average over five years, it is high for 2016. That is, the previously formed hypothesis that the investment attractiveness of the regions has a significant weight in the construction of this equation has been confirmed. It means the more investments in trade, the more volumes of trade. But, the hypothesis that the region's share in the investment potential has a strong effect on retail sales - has not been confirmed, as it was shown by the weak coefficient of pair correlation in our equation. Nevertheless, the regression coefficients have a direct relationship, which is confirmed by a positive parameter in the equation. That is, under conditions of legal and institutional and financial issues, retail network opening projects will be profitable in regions where there is a high share in the country's investment potential. However, in the course of solving this modeling, we found that regions with a high investment potential have a positive approximation, although they tend to grow retail volumes, but influenced by regressors in combination, they have a lower value of the calculated effective indicator than the actual one.

The calculated values of retail volumes according to the developed model are well approximated with actual volume indicators, since the average value of the relative error of approximation for 5 years is 0.0006%. The study of relative approximation errors gives us the opportunity to identify regions and cities that have the potential for developing a retail network (Table ???).

Table - ???

Prospective regions of the Republic of Kazakhstan for the development of retail and retail networks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Regions | Actual average retail volume for 5 years, mln.tg | Calculated average retail volume for 5 years, mln.tg | Average share in the total country potential over 5 years | Average values of risk indexes for a region or a city, for 5 years |
| Almaty reg. | 308046,34 | 331151,1132 | 5,05 | 0,34 |
| Karaganda | 562987,18 | 602885,5317 | 8,28 | 0,45 |
| South Kazakhstan | 328010,26 | 371808,9409 | 5,80 | 0,43 |

We selected exactly those regions where there is an increase in calculated retail volumes that have negative errors. Identified regions in the model have prospect conditions for the opening of franchise retail networks in particular and retail in general. And, as a result, they will attract additional foreign and local investment in the economy of the regions, which will improve the quality of life there, increase human, financial, information, infrastructure capital, and therefore lead to intensive and extensive development of economic indicators of regions and the Republic.

Conclusion

Data indicate, that during the years of the economic crisis, retail increased in volume in general. The crisis affected this industry not so much as the other sectors. During the period under review (2012-2016), the number of opened retail trade of all formats increased. Especially the number of synthetic retail formats, where franchising networks are concentrated has increased. In general, there is a positive trend, but not as big as franchise owners expect it to be. This is due to a number of factors, including the risks associated with uncertainty in forecasting issues - qualitative and quantitative analysis of macroeconomic and other indicators affecting this area.

The regression-correlation analysis and the forecasting of retail development in the regions, performed by the author in this part of the dissertation, made it clear that, with the exception of unobservable variables, the development of retail trade is most influenced by gross regional product. The expansion of retail networks by franchise is largely influenced by the factors, such as consumer debt and investment potential, which consists of indicators such as: the level of innovation development, institutional development, infrastructure, purchasing power, production, natural and climatic conditions, human resources, tourism, finance and etc.

We also compared the results of the modeling with the risk indexes of the regions, which are composed of economic, financial, social, environmental, criminal, managerial risks.

We assume that the results presented in this part can be used by researchers, as well as for business structures, entrepreneurs, public authorities applying these methods when choosing a retail development strategy in general and franchising in retail in particular.

**CONCLUSION TO 3.3**

The main directions of development of retail and its modern formats are:

- qualitative modification of the structure and permanent growth of the trade network;

- rapid growth of retail areas in comparison with the growth of the network;

- deep satiety of the consumer goods market;

- the organization of new retail formats;

- the development of system of retail franchising and expanding its capabilities in marketing strategies;

- Increasing the differences between retail formats and simultaneously ensuring the receipt of high profits not only from highly diversified retail enterprises with a wide range of products, but also from formats of trade with a limited range of goods;

- increase in the number of large retailers in the world market;

- development and modification of online trading;

- extension of the services range provided by retailers.

Table

Opportunities of the main directions of retail development and its modern formats.

|  |  |
| --- | --- |
| Directions | Opportunities |
| - qualitative modification of the structure and permanent growth of the trade network | - increase in the number of large modern formats and synthetic formats of retail trade (hypermarkets, supermarkets, shopping centers, galleries, malls, etc.)  - universalization of retail enterprises, which will enable to organize trade formats, where buyers have the opportunity to make all planned purchases, use the necessary services, spend their leisure time |
| - the rapid growth of retail areas in comparison with the growth of the network | - the possibility of solving the issue of the infrastructure in the region  - accounting of limited possibilities, the number and size of land in close proximity from housing estates |
| - deep satiety of the consumer goods market | -increase of competitiveness of modern formats due to the increasing of market share  - the possibility of working for different groups of consumers |
| - the organization of new retail formats; | - the possibility of developing an innovative approach to the management of commercial enterprises |
| - the development of system of retail franchising and expanding its capabilities in marketing strategies; | - cost reduction for networks organization;  - integration of network links capabilities  - the possibility of scaling business outside the country  - сreating a brand as an element of sustainable enterprise development |
| - increasing the differences between retail formats and simultaneously ensuring the receipt of high profits not only from highly diversified retail enterprises with a wide range of products, but also from formats of trade with a limited range of goods; | - dividing to segments gives an opportunity to improve their activities due to knowledge of the market features  -possibilities for the development of unoccupied parts of the market |
| - increase in the number of large retailers in the world market; | - increase investment in the economy of different countries  - development of integration processes  - diffusion of innovations in the retail market |
| - development and modification of online trading; | - costs reduction for renting, salaries, etc.  - provision of accessibility for people with disabilities |
| - extension of the services range provided by retailers. | -development of the client-centered approach  - increasing the consumer loyalty |

The latest information about the retail market in Kazakhstan over the past year shows not good results. According to Nielsen company, a part of retailers in 2016 are forced to close stores in Kazakhstan, due to decreasing demand for consumer goods, and as a result, reducing in traffic and sales in stores.

Currency devaluation caused a sharp reducing in sales, which resulted in a rapid increase in prices for clothes (on average in 2015 by 32%) and footwear (by 15-20%). Such a sharp increase in prices is due to the fact that the clothing retail of Kazakhstan depends on imports. Also, prices increased for basic food products.

Due to higher prices for goods, there is also a change in purchasing behavior. Most consumers began to save up money, not making unplanned purchases, preferring products with a lower price. According to analysts, this trend will continue. Buyers have become more inclined to the means of sales promotion, promo actions and discounts.

According to the Association of Retailers of the Republic of Kazakhstan in the synthetic retail format, there is a problem with the incomplete filling of retail areas. According to the latest information it is about 25-30%. In shopping and entertainment centers with the highest traffic capacity, it is about 5-10%.

Taking into account the indices of Kazakhstan's import dependence, it can be concluded that in many ways we can not provide consumers with goods of our own production. Provision with goods of processing industry, with food products (except the seafood products) – is about 50-100% (for different goods) and on average it is about 60-70%, for construction materials - at the level of 70-100% for different positions. There are high indicators of import-dependence on the items of clothing, footwear, hygienic items, furniture (clothing - 90-100%, footwear - 99%, hygienic items - 99%, furniture - about 60%). And this means that imported goods depend on the exchange rates of different countries, mainly on the American dollar, which prices are increasing.

Practice shows, that in the CIS countries, markets become attractive for franchises, if the capacity begins to decline. This circumstance leads to the fact that it will be difficult for the main players on the market to develop at their own expense, and on the other hand it is difficult for newcomers to enter into it. This kind of markets is characterized by the development of various integration mechanisms - mergers and acquisitions, as well as the development of franchise systems. In these conditions, potential franchisees can benefit from joining the franchise network, which will be the most rational investment solution.

Compared to the West countries, it is easier to sell franchises on saturated markets in the CIS countries, but it is not true for dynamically developing, promising markets. For example, the purchase of a franchise requires at least 20-25 thousand c.u., the average amount of initial investment is about 60 thousand c.u. In the conditions of economic instability in the country and devaluation, those decisions for entrepreneurs are risky.

For entrepreneurs it is more profitable to enter independently into dynamically developing promising markets without buying a franchise, building a business from scratch or buying an existing enterprise, since such an enterprise can develop quite successfully independently.

Thus, it can be concluded that in growing markets, franchises of companies are not sold rapidly, and networks in these markets do not create a franchise system due to the fact that the profit is enough to develop its own network.

A distinctive feature of the Kazakhstan retail market is not the broad specialization of operating companies, but their concentration on a certain segment or a particular age group. At the present stage, high competition is observed between retail sales in the markets and modern formats of retail. Large retail sales in the markets are achieved through low prices, which keep at this level due to illegal imports and exports, the sale of poor quality products, counterfeit goods under various brands, tricks in the system of tax payments (most small retailers do not show their real turnover and the real number of employees in order to reduce tax payments). The pace of retail development depends on problems associated with shadow methods of business development (import and export of counterfeit and contraband products), lack of own working capital and a small number of qualified employees.

In our opinion, the stabilization of retail can be achieved by developing new formats of trade with a developed infrastructure where it will be convenient for buyers to make complex purchases.

Development in this direction means the strengthening of the competitive advantages role, which can be achieved through the integration of the capabilities of franchisors and franchisees in case of the organization of specialized various retail formats.

Before, franchising business enterprises were focused on the development in large cities, but today they are interested in regional expansion. At the same time, as it was identified, that franchising in retail in most cases is developed with help of foreign companies, that is why issues related to increasing competitiveness of Kazakhstan franchising companies in retail are relevant.

So, we can identify research criteria to indicate the main directions of franchising development in retail.

Based on the exploratory study, the working hypothesis of the research plan identified the following main evaluation criteria (Table)

Table

Criteria for stores selecting

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| № | Criteria | Experts | | | | | Average points |
| 1 | 2 | 3 | 4 | 5 |
| 1 | A wide and deep range of products for different ages | 10 | 10 | 10 | 10 | 10 | 10 |
| 2 | Ability to make a complex purchase | 9 | 9 | 9 | 8 | 10 | 9 |
| 3 | Quality of the product | 9 | 7 | 8 | 8 | 8 | 8 |
| 4 | Convenient location of the store | 8 | 9 | 7 | 8 | 8 | 8 |
| 5 | Previous positive experience of shopping | 8 | 7 | 7 | 6 | 7 | 7 |
| 6 | Acceptable price level | 8 | 6 | 7 | 8 | 6 | 7 |
| 7 | Presence of different brands in products range | 6 | 5 | 7 | 6 | 6 | 6 |
| 8 | Location in the city center | 5 | 6 | 7 | 6 | 6 | 6 |
| 9 | Frequent updates of assortment | 7 | 6 | 5 | 6 | 6 | 6 |
| 10 | Opportunity to combine shopping with rest | 6 | 7 | 5 | 6 | 6 | 6 |
| 11 | High level of services | 6 | 7 | 5 | 5 | 7 | 6 |
| 12 | Parking availability, its convenience and area | 7 | 6 | 6 | 5 | 6 | 6 |
| 13 | Presence of a room for mother and child of places of entertainment for children | 5 | 5 | 4 | 6 | 5 | 5 |
| 14 | Positive feedback from friends, acquaintances, from Internet forums | 5 | 3 | 4 | 3 | 5 | 4 |

|  |  |  |
| --- | --- | --- |
| № | Criteria | Criteria ball scaling |
| 1 | A wide and deep range of products for different ages | 10 |
| 2 | Ability to make a complex purchase | 9 |
| 3 | Quality of the product | 8 |
| 4 | Convenient location of the store | 8 |
| 5 | Previous positive experience of shopping | 7 |
| 6 | Acceptable price level | 7 |
| 7 | Presence of different brands in products range | 6 |
| 8 | Location in the city center | 6 |
| 9 | Frequent updates of assortment | 6 |
| 10 | Opportunity to combine shopping with rest | 6 |
| 11 | High level of services | 6 |
| 12 | Presence of a room for mother and child of places of entertainment for children | 6 |
| 13 | Positive feedback from friends, acquaintances, from Internet forums | 5 |
| 14 | Parking availability, its convenience and area | 4 |

Based on the table above ??? The main criterion for choosing a store is determined by the availability of the most complete assortment of quality goods for different age groups, the possibility of making an complex purchase, the convenience of the location of stores. In most cases, the preferences of buyers are influenced by the level of prices and quality service.

Then, on the basis of expert - analytical research we will estimate the degree of attractiveness of the criteria for selecting a store.

Table ???

Evaluation of the attractiveness of the criteria for selecting a store

|  |  |  |  |
| --- | --- | --- | --- |
| **Criteria of the attractiveness of stores** | **Relative importance of the criteria** | **Expert evaluation** | **Criteria of the attractiveness of stores** |
| 1. A wide and deep range of products for different ages | 0,10 | 10 | 1,0 |
| 1. Ability to make a complex purchase | 0,09 | 9 | 0,8 |
| 1. Quality of the product | 0,08 | 8 | 0,6 |
| 1. Convenient location of the store | 0,08 | 8 | 0,6 |
| 1. Previous positive experience of shopping | 0,07 | 7 | 0,5 |
| 1. Acceptable price level | 0,07 | 7 | 0,5 |
| 1. Presence of different brands in products range | 0,07 | 6 | 0,4 |
| 1. Location in the city center | 0,07 | 6 | 0,4 |
| 1. Frequent updates of assortment | 0,07 | 6 | 0,4 |
| 1. Opportunity to combine shopping with rest | 0,07 | 6 | 0,4 |
| 1. High level of services | 0,07 | 6 | 0,4 |
| 1. Presence of a room for mother and child of places of entertainment for children | 0,06 | 6 | 0,4 |
| 1. Positive feedback from friends, acquaintances, from Internet forums | 0,05 | 5 | 0,3 |
| 1. Parking availability, its convenience and area | 0,05 | 4 | 0,2 |
| Total | 1 | 94 | 7,0 |

According to the tables ??? and ???? we calculate a complex parametric index for each parameter for each expert according to the formula:

*m*

Imax = ∑*qi ai.*

I=1

Where Imax - a composite parametric index for each parameter of the expert; *qi=q/qk –* the relative parameter of expert assessments

*q –* the parameter of the compared expert

*qk –*  the parameter of another expert

*ai. –* the coefficient of significance (weight of this criterion)

For the first expert, the value of the parametric index is defined as:

1. Imax=(10/10)\*0,1+(10/10)\*0,1+(10/10)\*0,1+(10/10)\*0,1=0,4

for other parameters

1. Imax=(9/9)\*0,09+(9/9)\*0,09+(9/8)\*0,09+(9/10)\*0,09=0,4
2. Imax=(8/7)\*0,08+(8/8)\*0,08+(8/8)\*0,08+(8/8)\*0,08=0,4
3. Imax=(8/9)\*0,08+(8/7)\*0,08+(8/8)\*0,08+(8/8)\*0,08=0,3
4. Imax=(7/7)\*0,07+(7/7)\*0,07+(7/6)\*0,07+(7/7)\*0,07=0,3
5. Imax=(7/6)\*0,07+(7/7)\*0,07+(7/8)\*0,07+(7/6)\*0,07=0,3
6. Imax=(6/6)\*0,07+(6/7)\*0,07+(6/6)\*0,07+(6/6)\*0,07=0,3
7. Imax=(6/6)\*0,07+(6/7)\*0,07+(6/6)\*0,07+(6/6)\*0,07=0,2
8. Imax=(6/6)\*0,07+(6/5)\*0,07+(6/6)\*0,07+(6/6)\*0,07=0,3
9. Imax=(6/7)\*0,07+(6/5)\*0,07+(6/6)\*0,07+(6/6)\*0,07=0,3
10. Imax=(6/7)\*0,07+(6/5)\*0,07+(6/7)\*0,07+(6/7)\*0,07=0,3
11. Imax=(6/6)\*0,06+(6/6)\*0,06+(6/5)\*0,06+(6/6)\*0,06=0,2
12. Imax=(5/5)\*0,05+(5/4)\*0,05+(5/6)\*0,05+(5/5)\*0,05=0,2
13. Imax=(4/3)\*0,05+(4/4)\*0,05+(4/3)\*0,05+(4/5)\*0,05=0,3

Consolidated parametric indices show that the biggest values are accounted for the criteria for the attractiveness of stores, such as: a wide and deep range of products for different ages, ability to make a complex purchase, quality of the product, since the value of the parametric index of these criteria was 0.4. It should be noted that 4,5,6,7,9,10,11,14-th criteria show the same value of the parametric index (0,3), the criteria 8,12,13-th also show the same value of the parametric index scored the smallest result (0,2).

The analysis of franchising companies in retail shows that franchisors that use business-format franchising for development in the regions prevail. This format allows to form uniform rules for conducting business on the approved standards, used in the design of shops and staff development.

The strategic potential of Kazakhstan franchisers in retail characterizes their average survival in a competitive struggle. Despite the full description of all the elements of business processes in the franchise package, today there are not high growth rates of sales.

The analysis of investments in the opening of stores through the franchise system showed that, in general, among the foreign franchises, the practice of using initial contributions when signing a franchising agreement is most common. It should also be noted that the projected costs for the purchase of equipment and products for the franchisor to open a store vary within various limits.

At the same time, there are also different other costs like: royalties, a lump-sum contribution, advertising deductions. On average, the initial payment varies about $ 15,000, up to 4% of the revenue is deducted by the franchisee under the franchise agreement to the franchisor for event managers training, getting sales skills, building a product line, coach partnership, advertising, etc.

The current stage of functioning of franchising enterprises requires franchisors to perform services related to lending, online service, provision of installment payments, use of CRM systems in management and the introduction of automated control systems. Companies, such as Mexx, MIMIORIKI offer this kind of services.

Conditionally, based on the ratio of the cost of franchises and the services provided by franchisors, the analyzed franchise companies can be divided into four groups (See figure)

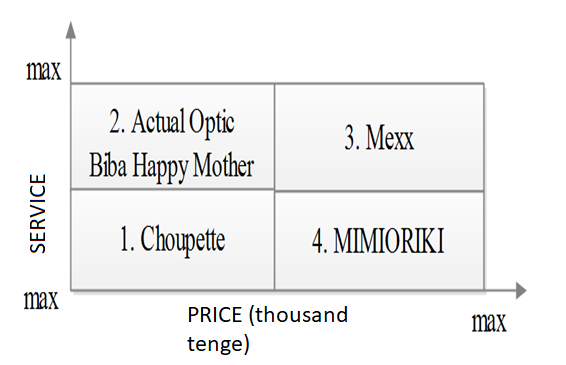


Figure - Segmentation of franchisers, working in a synthetic retail format in the market

The first segment in the retail franchise market is distinguished by relatively low investment costs. But the services in the franchise package assume a narrow range of services provided in the field of promotion organization, effective sales training, building a product line, coach partnership. Usually, this retailers use franchising as a source of resources for the development of their own network. This fact has a negative impact on the work of franchise shops. For example, franchisees do not have guarantees for timely delivery of goods and quality service in the field of business consulting from franchisors.

This segment has weak positions in comparison with other segments, as it is at the initial stage of development according to the franchising system and do not have the capacity to establish clear, complex relations with the franchisee. Among Kazakhstani enterprises, this position is taken by Biba Happy Mother.

The second segment of franchises in retail is occupied by franchisors, who are only trying the franchising system as a development prospect. This phenomenon is due to the fact that companies do not have much experience in organizing franchises, do not have close business contacts with experts in this field. It should also be noted that the list of services provided by the franchisee is wide enough, but the initial investment for the opening of franchises is lower than for the third segment. The second segment has certain advantages for the franchisee, as it gives the possibility of a phased growth as the franchising system improves. In this segment, we can mention the company for the development of the Actual Optic brand.

The third segment is represented by franchisors, who engaged in the expansion of its business on more attractive terms. These companies have strong competitive advantages; they occupy a strong position in the market. Due to a strong brand, they attract franchisees who are willing to invest significant financial resources with less risk of bankruptcy.

The attractiveness of this market segment is explained by the fact that they have extensive experience in developing of franchising in retail, have a sufficient number of highly qualified staff and well-established system for marketing activities, as well as a complete franchise package with a detailed description of the business that affects the whole chain of business processes. The companies in this segment have a high level of service. They invest significant funds in the maintenance of corporate image, develop special management systems for all business processes, have their own system of assessing the work of the franchisee, carefully approach the selection of future franchisees, at least twice a year conduct their partners' certification in accordance with the established procedure. Appropriate Kazakhstan's franchisors companies were not revealed in our analysis. From the selected franchisers in retail, there is the Mexx brand moving through the sub-franchiser BNS Group (Russia).

The fourth segment is characterized by the active promotion of franchises at high prices and with a small number of related services. Companies of this type have built a retail system on the base of the strategic potential, which is their own production, knowledge of the local market. In the Kazakhstan practice of franchising in retail in this segment, the LLP "MIMIORIKI" company with the MIMIORIKI brand operates.

Franchisors of the second and fourth segments have more opportunities for development in the field of franchising in retail. Franchisor of the second segment can achieve the desired results of successful business by making rational decisions in the field of management, research of entrepreneurial experience and association. Franchisors of the fourth segment, in our opinion, should address the improvement of the provided services and the introduction of processes that have been tested in successful companies.

Practice shows, that franchisees who do not have experience of working in retail and who have a small amount of accumulated capital for business are more sensitive to the prices of other business partners. These indicators lead to the formation of management decisions by the franchisors. This type of franchisee should use the opportunities of trainings on learning the technologies of retail and the search for lending programs.

Thus, for the above-mentioned companies in the retail sector it is typical to use proactive strategies, and it is also possible to use defensive strategies for further development.

Then, we consider the characteristics of this strategy tactics.

1. Tactics based on proactive strategies:

- Extensive development through the development of brand policy and expansion the services package for franchisees;

- Intensive growth of franchising points on the territory, an increase in the number of new retail formats.

2. Tactics based on defensive strategies:

- Retention of the won positions, building a permanent service system and high quality of services;

- Rationalization due to constant monitoring of the effectiveness of franchising points and termination of working with them in case of identifying not cost-effective points.

The positive effect of applying the franchising strategy can be obtained through the right choice of tactics (Table)

Table

Characteristics of the franchise strategy in retail

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Directions of management | 1. Extensive development | 2. Intensive growth | | 3. Retention of conquered positions | 4. Rationalization |
| Main activities in the management directions | | | | |
| Management of brand policy and promotion | Development and implementation of branding policies and advertising strategies | Intensification of efforts to participate in seminars, round tables, industry exhibitions | Promotion of the brand by the franchise's own forces (ATL and BTL - promotion at the regional level) | | Reducing the cost of a policy or suspension |
| Assortment policy management | Differentiation of goods or services, horizontal or vertical expanding the range | Lower price point for goods or services than competitors offer | The intensification of efforts to develop goods or services that are economically efficient | | Adaptation of the stores assortment for a certain segment |
| Service policy management | Expansion of the service package, introduction of innovative services | Expansion of the number of franchise service personnel | Improving the quality of provided services | | Using the standard service package |
| Regional development | The introduction of new retail formats at the regional level | The opening of a larger number of new retail outlets in the regions (at least 6-8 stores in each region), including in outlets in large shopping and entertainment centers | Opening the franchise stores in high-traffic locations | | Termination of working with stores in case of identifying not cost-effective points. |
| Finance management | Improvement of the program of subsidizing franchising projects. | Gradual increase payments for the franchise network organization. | Improvement of the network management system due to franchisee's open financial policy for monitoring the liquidity situation by franchisors | | Closing of illiquid franchising points |