FRANCHISING IN SELECT FORMER COMMUNIST STATES: A STUDY OF ROMANIA, MOLDOVA AND KAZAKHSTAN

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Research Note

ABSTRACT

This paper focuses on three emerging markets: Romania, Moldova and Kazakhstan. We investigate how these countries chose which international fast-food franchises to introduce first and why. We propose and investigate the two following hypothesis: H1: Potential fast-food franchises in emerging markets will seek to first introduce the largest global fast-food chains (which on average cost the most) or they will opt for contracting the cheapest franchise with a global presence, most preferably the former. H2: The most prominent fast-food franchises will contract master franchisees operations to expand into emerging markets. Based on our research methodology of analyzing country and franchise specific information both our hypothesis hold true.

Keywords: Emerging Markets, International Franchising, Master franchisee, Romania, Moldova, Kazakhstan, Fast food.

1. INTRODUCTION

Franchising is an organizational structure that emerges from a contractual agreement between the Franchisor (Parent Company) and the Franchisee (Company or Individual granted a license to use the Parent Company’s Intellectual property). The franchisor typically grants the franchisee the license in return of a yearly flat fee and royalties or sales commissions (Ghanem, 1990). Franchising has become so popular that in the U.S. alone it accounts for an estimated $800 billion in gross sales while representing forty-percent of retail trade (Swartz, 2001). Not only has franchising been so successful but it has also reached saturation in the US, Canada and parts of Western Europe (Welsh, 2006). This is why emerging markets are among the fastest growing targets for international franchise investment.

While there are many emerging markets, this paper focuses on three: Romania, Moldova and Kazakhstan. The exact question this paper seeks to answer is how these countries chose which international franchises to introduce first and why, specifically in regards to the fast-food and hotel industry. Related research of international franchising in emerging economies widely dispersed and many times hard to access as research is mostly published by smaller country specific academic journals.

2. THEORY AND HYPOTHESES

There is no one definition for emerging market, but literature in the subject area shows that it is identified by three characteristics:

1) Level of Economic Development,
2) Economic Growth, and
3) Market Governance (Czinkota, 1997).

A few general characteristics of emerging markets include: low GNP per capita, but high potential growth; unequal distribution of income but a growing middle class; technological and regional dualism with pockets of development along urban centers; high population concentrations (Welsh, 2006).

There are two main types of ways franchises expand to international markets. First, is the option of direct investment where the franchisor opens and operates a company-owned store. Second, is the option of indirect investment. Indirect investment is when the franchisor chooses a Master Franchisee who can
develop sub-franchisees in a specific territory or throughout the country. The latter is the most common used by international firms entering emerging markets. (Welsh, 2006). That’s because the Master Franchisees model offers numerous benefits such as knowledge of the local market, access to resources, faster adaptation, and faster development of selling prospective franchisees (Nair, 2001).

**FIGURE 1. INTERNATIONAL FRANCHISING INTERACTIONS IN EMERGING MARKETS (WELSH, 2006)**

H1: Potential fast-food franchisees in emerging markets will seek to first introduce the largest global fast-food chains (which on average cost the most) or they will opt for contracting the cheapest franchise with a global presence. Most preferably the former.

H2: The most prominent fast-food franchises will contract master franchisee operations to expand into emerging markets.

**H1: MODEL**

**FIGURE 2 HOW POTENTIAL INVESTORS VIEW FAST-FOOD FRANCHISES IN EMERGING MARKETS**

3. **FINDINGS**
3.1. Romania

Romanian Franchise law is regulated by Law no. 79 April 1998 and is defined as a marketing system where the franchisor grants the rights to the franchisee to develop a business, technology, service or product. The first franchises in Romania were Coke and Pepsi but the first classic business franchise was McDonalds which opened its doors in 1995 (Simona, 2014). In 2015, McDonalds remained the undisputed fast-food franchise with thirty-one percent transactions volume share and twenty-nine percent value share. (Euromonitor, 2016). There are 67 McDonald’s in Romania. Until the end of 2015, McDonalds in Romania were entirely operated by its local parent company, with the exception of seven outlets operated through franchising. In 2016 the sale of the company-owned stores was made to new master franchisee Premier Capital. (Euromonitor, 2016). Aside from McDonalds, Romania also has KFC and Pizza Hut both operated by master franchisee US Food Network. Pizza Hut opened its doors in 1994 followed by KFC in 1997 which now has a total of 59 stores throughout Romania. Burger King was also open in 2005 through 2012 but closed down, it was operated by master franchisee Atlantic Restaurant System. Out of five franchises (4 currently still in existence), only McDonalds starting with company owned stores, the remainders started with master franchisee operations. In 2012, Subway entered the Romanian market through by franchising individual stores.

3.2. Moldova

McDonalds opened its own company owned store in the capital Chisinau in April of 1998. It then later transferred its operations to local franchisee consisting of two individuals who now run and operate McDonalds for the entire country (mcdpressoffice). US Food Network of Romania teamed up with American Restaurant Systems and brought KFC to Moldova in 1997 and PizzaHut in 1998 (Moldova.org, 2008). Out of the three franchises in Moldova only McDonalds began with company owned stores while the other two began with master franchisee operations.

3.3. Kazakhstan

Kazakhstan received its first international fast-food franchise McDonalds March 8, 2016 with a plan for 15 more stores. The store and license to operate throughout the country were granted to master franchisee Boranbayev who already holds the master franchise license McDonalds Belarus. This time McDonalds did not start by owning-operating its first store.

4. CONCLUSION

There are no random US franchises in the specified countries such as Hardees or White Castle. Only the most prominent franchise names so H1 seems to hold true. Even though, Romania does have subways it is because they are the cheapest independent franchise operation to acquire. In regards to H2, it seems correct that most often than not franchises will opt for a master franchisee as opposed to company-owned stores.

REFERENCES


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