

## Franchising

### Overview

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Franchising is one of the most popular business models for entrepreneurs and companies interested in diversifying into other business in Ukraine. For aspiring entrepreneurs and experienced Ukrainian companies franchises are available per license, a license for a specific city, region, or the country. Today there are 425 franchised brands in Ukraine and annual growth rates in the number of franchised companies in Ukraine was 21% between 2001 and 2014. Of the franchised brands in Ukraine, nearly three of four are Ukrainian and/or Russian brands and only five percent are American. Thus far, franchising in Ukraine has been dominated by fast food (56.3%), hotels (18.2%), and food (14.2%). With an estimated 145 independent retailers actively seeking a franchise partner in 2015-2016, there is a unique opportunity for American franchise brands to capture market share.

McDonald's was the first multinational quick service restaurants (QSR) entering the Ukrainian market in 1997. As of March 2015, McDonald's Ukraine operates 73 restaurants in 18 cities and maintains a dominant lead in the QSR business, accounting for 63% of total fast food retail sales in Ukraine. Kentucky Fried Chicken (KFC), a relative new comer, has been developing quickly, opening 5 restaurants in Kyiv since 2012. Due to the economic recession the KFC has frozen its country-wide expansion plans. Domino's Pizza, entered the Kyiv City market in October 2010, and now has a total of 18 locations.

The top four countries in terms of the number of franchise outlets are Hungary (Fornetti, 645), Russia (TNK, 390), Italy (TOM FARR, 215) and the USA (FitCurves, 180). Many major multinational QSR brands are already present in Ukraine and are expected to expand their presence significantly throughout the country. The top U.S. QSR brands in demand in Ukraine are those already represented in Central and Western Europe. Burger King, Pizza Hut, Starbucks, 7 Eleven and Subway are the most in demand by Ukrainians.

Further development of retail and foodservice franchises will largely depend on the economic and political situation in Ukraine. The recent positive improvement was the approval of "The New Order of Registering Franchise" by the Ministry of Justice of Ukraine in October of 2014. This Act became effective on April 1, 2015. It eliminates confusion in this sector and makes the process of registering franchise mandatory and transparent. As a result, fiscal authorities will no more have grounds for questioning lawfulness of classifying royalty payments as costs for franchisees. This will lead to decrease of tax load for franchise business in Ukraine.

Despite Russian Federation's annexation of Crimea, the separatist conflict in the East of Ukraine, currency fluctuation, inflation and decrease of people's purchase power there is a growing interest in franchise business models, especially to franchise license nominated in UAH and not tied to foreign equipment. Due to local currency devaluation prices for foreign franchises increased nearly in 3 times. There is a shift of medium class customers to low-cost franchise segment.

## Sub-Sector Best Prospects

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The best prospects in this sector are:

- Fast food franchising
- Food franchising
- Children's services franchises
- Full service restaurant franchising
- Budget hotel franchising

## Web Resources

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### Trade Events

International Franchising Expo (IFE) 2015, New York, NY, June 18-20, 2015

<http://www.ifeinfo.com>

Franchising 2015, Kyiv, Ukraine, February 25-27, 2015 <http://franchising.euroindex.ua/>

Franchise Expo Paris 2016, Paris, France, March 20-23, 2016

<http://www.franchiseparis.com>

The British & International Franchise Exhibition, London, UK, March 11-12, 2016

<https://www.franchiseinfo.co.uk/>

The Franchise Show 2016, London, UK, February 19-20, 2016

<http://www.thefranchiseshow.co.uk>

### Useful links

Franchise Group <http://franchisegroup.com.ua>

Ukraine Retail Association <http://rau.com.ua/>

Franchising Association Ukraine <http://www.franchising.org.ua> (in Ukrainian only)

Franchising Development Federation Ukraine <http://fdf.org.ua/index.php?lang=en>

Statistics <http://franch.biz/franch/franch-stats> (in Ukrainian only)

The Ukrainian State Committee on Regulatory Policy and Entrepreneurship

<http://www.dkrp.gov.ua> (in Ukrainian only)

Ukraine CPI Consumer Price Index <http://countryeconomy.com/cpi>

Colliers Ukraine Shopping Centers Development Pipeline <http://www.colliers.com/engb/Ukraine>

DLA Piper <https://www.dlapiper.com/en/ukraine/aboutus/>