
**AGRO-FRANCHISING AS A PROSPECT FOR SMALL AGRIBUSINESS
DEVELOPMENT IN UKRAINE**

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***Abstract.** The article explains main features of small businesses in the agricultural sector, as well as the advantages of small agribusiness to corporations. Agro-franchising is one of the ways of effective interaction between large and small agribusiness, which can ensure a decent standard of living and well-being of small farms. Agro-franchising is an agribusiness system that includes a large agricultural enterprise (franchisor), which operates effectively in the market, has its own well-established brand and a small entity (franchisee), which has acquired from the franchisor the right to use its trademark and business technologies. The author notes that this system of organization of agricultural production is especially relevant for private farms, as it is known that natural and high-quality agricultural products are more popular with buyers than the products of large agricultural enterprises. The use of agro-franchising promotes the introduction of effective innovative agricultural technologies and standards of agricultural production, serves as an indispensable means of increasing the popularity and competitiveness of domestic trademarks. The article describes the main advantages and disadvantages of agro-franchise. The introduction of agro-franchising by Ukrainian small producers will help to expand their social base, increase the attractiveness and prospects of small agribusiness in the eyes of young people.*

***Keywords:** agricultural sector, small agribusiness, private farms, corporations, agro-franchising, international franchising.*

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1. Introduction.

Small business, incl. agrarian, plays a significant role in dealing with socio-economic issues of Ukraine's economy. The essence and importance of small business are the following: it is a socially significant sector of a market economy; it is the basis of small-scale production; it provides freedom of market choice, saturation of the market with consumer goods and services of daily demand, introduction of innovations, additional jobs; it has high mobility.

The main features of small businesses in the agricultural sector are the following:

- personal participation of the family or some of its members in carrying out activities;
- small volumes of production or services;
- intuitive nature of entrepreneurial activity, lack of strategy for the future;
- use of unskilled or low-skilled labor (low level of education, lack of professional skills);
- informal relationship in the course of activity;
- high dependence on natural and climatic factors that determine the seasonality of production;
- high probability of risk, which complicates access to financial and credit resources; weak support or lack of support from the state.

The main products produced in private farms are sold in small batches as agricultural raw materials at extremely low prices to intermediaries or directly to processors of agricultural products in the domestic market. This is due to the fragmentation of small farms and, consequently, the inability to compete with large producers.

2. Relevance of the topic and analysis of recent publications.

Close economic relations must be established between corporations and small agribusinesses. It will require constant improvement in order to achieve the greatest efficiency in the process of cooperation between these entities. Agro-franchising is one of the ways of effective interaction between large and small agribusiness, which can ensure a decent standard of living and well-being of small farms.

Interaction between corporations and small agribusiness is covered in the scientific works of both domestic and foreign scientists. Ukrainian scientists are Lupenko Y.O, Nesterchuk Y.O., Gutorova A. O., Kropyvka M.F and others. Franchising was investigated by Dobrunova A.I., Gupalova N.A. and others.

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3. The main body of the academic paper.

In modern conditions franchising acts as one of the best and most effective ways to develop a small business. This is typical for companies that have achieved some success and want to develop in future and for companies that start a business, have desire and ability to do business under the leadership of a large enterprise, gain new knowledge, experience, master and adopt innovative technologies and methods of doing business. Such cooperation is an integrated form of large and small business, which takes into account the necessary balance of economic interests of the two parties [1].

International franchising, as a form of business, is developing quite dynamically today, as franchising is an easier way for companies to penetrate world markets and does not require significant investment resources to start a business. As of today, the number of franchise companies in the world, according to the World Franchising Council (WFC), is rapidly approaching 1.5 million. Traditionally active are the fast food industry, travel companies, fitness clubs, beauty salons, health care, restaurants, child care centers, service industry. Recognized franchise leaders in the world are USA, Canada, Japan, Korea, Australia; in Europe - Germany, Great Britain, France and Poland [2].

Agro-franchising is an agribusiness system that includes a large agricultural enterprise (franchisor), which operates effectively in the market, has its own well-established brand and a small entity (franchisee), which has acquired from the franchisor the right to use its trademark and business technologies [3]. The mechanism of interaction between these entities is the following – a large agricultural enterprise gives a small business the right to use its brand, teaches business technologies and provides a guarantee of stable operation, since the success of the franchisor has already been proven in practice.

Agro-franchising is effective because of two factors: it allows to attract active but not very experienced people to agribusiness and teach them to conduct business processes effectively, and also allows to build a network business in large areas. Thus, agro-franchising is a method of replicating successful small farms that produce similar products with large agricultural enterprises.

The mechanism of interaction between large and small agricultural enterprises on the basis of the franchise model has a number of advantages:

first, the period of operation of small agribusiness increases significantly, risks in the sale of products are reduced;

secondly, the number of small agricultural enterprises is increasing, which increases the employment of the rural population;

thirdly, it allows to satisfy the needs of the population in natural products as much as possible;

fourth, increase the profitability of rural budgets.

Thus, franchising has prospects for successful development of small agribusiness.

There are thousands of examples of franchises in the United States – from taxi drivers, truckers, fast food restaurants ("McDonald's", "Starbucks") to schools. Formally, farmers in the United States are not franchisees, but in fact – yes, this way of farming was developed here historically. Franchisees are now experiencing economic growth; many farmers are members of Land-O-Lakes, CHS or the American Crystal Sugar Company. These cooperatives provide technological support,

supply of seeds, other resources and, most importantly, buy their final products. Practically the same is done by Cargill – one of the world's largest companies engaged in the supply of food, agricultural, financial, industrial goods and services around the world. In addition, all these companies offer insurance and financing. As a rule, in this case farmers do not need to have their own vehicles and storage facilities or have small buffer capacity [4].

Agro-franchise is a kind of ready-made business. The basic farm (corporation) provide the representatives of small agribusiness with equipment and inventory, young farm animals or planting material and training in production technology is also provided. Small producers, having implemented this technology, can return the finished product to the basic economy (corporation) or sell it independently.

Today, this system of organization of agricultural production is especially relevant for private farms, as it is known that natural and high-quality agricultural products are more popular with buyers than the products of large agricultural enterprises. But the lack of a system for promoting such products on the market and its monopolization by large producers, does not allow small businesses to sell their products to the extent that would allow them to function and develop effectively.

On the other hand, large agricultural producers understand that the competitiveness of their products can be significantly reduced when several small agricultural producers enter the market with their natural and quality products, so it is in their interest to integrate with such farms in advance and resell their products. In turn, small producers, when using an agricultural franchise, have a real chance of stable operation, because all products are purchased by the corporation.

The attractiveness of agro-franchising for rural areas is that there are certain advantages for franchisees: the acquisition of a franchise allows private farms to organize their own business, which will provide a stable income, corporations may expand their positions and enter new markets, and the state might have the opportunity to get an effective tool for support for rural entrepreneurship. The use of agro-franchising promotes the introduction of effective innovative agricultural technologies and standards of agricultural production, serves as an indispensable means of increasing the popularity and competitiveness of domestic trademarks, and also reduces costs when expanding a business and moving to other regions.

One of the specific features of agro-franchising is the ability to bring together partners not only from different districts or regions, but also from different countries. Work under the franchise scheme is relevant for many domestic farmers, especially for private farms, which have serious difficulties in obtaining investment, credit resources and its development, problems with technical equipment and modernization of farms, sales of agricultural products, certification, including international standards, organic food.

The positive results of the franchising model are reduction in commercial risks, increase in market share through networking, reduction in costs due to the scale of production, sales and improvement of the agricultural distribution system.

The advantages and expediency of using agricultural franchises have been proven by international practice. Agro-franchising involves spread of standardized and proven technologies for small-scale production of unique products. production of niche products is one of the promising areas of agro-franchising, however it is not profitable in large quantities: breeding rabbits by acceleration technology, creating a technological apiary, sheep breeding, fattening turkeys, geese, quail eggs, seedlings, garlic, raspberry, sprouts of flowers and vegetables, etc. For each of them there may be basic farms (corporations), which have extensive experience, in the proposed pre-replication of production therefore they organize production and provide support for project participants who have purchased technology (small agribusiness) [3].

In the field of poultry, for example, poultry farming and egg production, private farms need support at all stages – incubation of eggs or purchase of chickens, advice on feed, veterinary care, sales. When creating a technological apiary for agro-franchising, a small producer receives hives, bee packages of breeding bees, equipment, inventory and veterinary drugs. Insurance of bee colonies and hives from fire, training in beekeeping courses, manuals on beekeeping products are also provided.

The main advantages of agro-franchise are the following:

1. A large agricultural enterprise sells agricultural franchises for the products it exactly needs, therefore the buyer of the franchise will not have problems with its sale.
2. A large enterprise provides access to the available technologies, small producers get training, ie, in fact, small agribusiness is provided with a ready-made business.
3. The Business plan is developed to minimize business risks at realization of an agro-franchise.

The development of franchising in the small-scale sector will allow not only to transfer modern business technologies to farms, but also to provide constant methodological assistance at each stage of the project: from its inception to profit.

Agro-franchising makes it possible to increase the volume of agricultural products produced by small farms, while solving the problem of employment.

Cons (disadvantages) of agricultural franchises.

The main reason for the low attention to the model of interaction through franchising, from large enterprises today is that they almost fully provide existing markets and do not want to create competitors. After all, after the transfer of technology, seeds, livestock and poultry, the franchisee will be able to realize the results of their work not only to the franchisor, but also freely in the market, thus there is a possibility that market share that previously belonged to the franchisor will go directly to the franchisee.

The Small Fruit franchise project is successfully operating in Ukraine – the cultivation and subsequent export of organic berries, which was developed by the consulting company Franchising Full Cycle. Small Fruit is an agricultural enterprise organized in 2011, its main activity is the cultivation and direct export of environmentally friendly products – berries (including raspberries) and fruits. At the beginning of its activity the enterprise grew products on the area of 12 hectares, now the total area of land plots is more than 300 hectares in 11 regions of Ukraine. Small Fruit products are certified in accordance with the European Standard for Organic Production and Processing and are fully exported to EU countries [5].

Thanks to the agro-franchise, snail farms began to appear in Ukraine only a few years ago and now there are more than 500 of them - small and large with their own processing and export abroad. Ukrainian producers sell snails mainly to the EU. This is the main opportunity to earn, because the culture of consumption of such products in the domestic market is extremely low, and manufacturers do not have high expectations for its improvement.

However, such active exports make it possible to predict that the number of snail farms in Ukraine will grow to at least 1,500, or even 3,000, said the co-founder of "Snail-2016" and Ukrainian Snail Holding processing company, Serhii Danyleiko [6]. In recent years, the company has helped 81 shellfish farms to open and is working to launch another 30 in 2020. Also, "Snail-2016" sold the first franchise in Ukraine for a snail farm with a capacity of 50 tons per year. The minimum investment in the snail business is estimated at € 15 thousand. In the first year, due to investments, the producer buys fixed assets, builds a base for reproduction and cultivation of mollusks. For the second and subsequent years, the main costs will be wages and feed for snails – 25-30% of the total cost structure [6].

There is a shortage in the global snail market today, although the number of farms in the EU alone is quite high – up to 3 thousand, and according to unofficial data, up to 10 thousand farms in each country (in Poland the official number of snail farms is 1000 units, although there might be more of them – 2-3 thousands. There are officially 2,500 farms in Spain, and 3,000 farms in France [6].

In previous years, there were several attempts to adopt the Law on Franchising in Ukraine, but none of them was successful. Meanwhile, such laws have successfully operated in developed countries, helping to regulate a lot of controversial issues of this business. In EU countries, clear criteria have been approved for evaluating franchise agreements in accordance with local antitrust law and a specific list of provisions, that are prohibited from being included in franchise agreements, has been adopted due to the risk of possible restriction of competition as such. In the United States, more than a hundred franchise laws have been passed at the federal level [2].

In the EU more than 60% of companies are franchised companies. According to the latest data, about 90% of this business in the EU is growing due to specific targeted loans. For example, in Italy, each new franchisee can receive from the Italian Franchise Association about € 50 thousand,

50% of which is a special grant and another 50% is a loan at a low interest rate from the state. This has more than doubled the number of franchisees in the last few years [2].

Targeted franchising lending in Ukraine is almost non-existent, and although many banks until 2014 declared their readiness to lend to franchising, in reality everything looked completely different. Franchising is an investment with increased risk for banks, as well as the usual business from scratch or a startup. It was much easier to get a loan if the franchise is no longer the first business and not the only one, and the entrepreneur already has a good financial history.

Agricultural franchising can supplement the system of consumer and production agricultural cooperation, and sometimes can be an alternative when the sale by small farms does not meet expectations. Small batches of products, which are not always certified, are usually not of interest to large purchasing and processing companies. With the development of agro-franchising and a new approach to sales, large horizons of prospects will open to small business.

The introduction of agro-franchising by Ukrainian small producers will help to expand their social base, increase the attractiveness and prospects of small agribusiness in the eyes of young people. Thanks to the agricultural franchise, agricultural products will become more popular.

4. Conclusions.

Franchising in Ukraine is a promising area of economic activity and in the coming years there will be growth in this segment. Franchising has a number of advantages and disadvantages that allow to reduce operating costs and increase the efficiency of production activities, which is especially important for Ukraine in modern conditions.

For the long-term development of franchising in Ukraine it is necessary to: ensure its legal regulation; create a network of training and consulting centers for the study of franchising in the country; select strong basic farms; develop packages of various agricultural franchises by basic farms (3-5 months); subsidize the costs of developing agricultural franchises; perform information campaign on agro-franchising in the regions; conclude agro-franchising agreements; receive and select applications for subsidies for the implementation of agricultural franchising; subsidize small business for the costs of implementing agricultural franchises.

Agro-franchising is an effective form of relations between corporations and small producers, which will significantly increase the efficiency of small agribusiness, and, consequently, ensure a decent standard of living and well-being of rural residents.

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