

# Prospects of Industrial Enterprise Development on a Franchise Basis

## Perspectivas del desarrollo de la empresa industrial en base de franquicias

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### ABSTRACT:

The purpose of the present study is to assess the prospects of industrial enterprise development on a franchise basis. Developing industrial enterprises through franchising is urgent because of limited advanced technologies. However, such a tool of developing industrial enterprises as a franchise is often considered in the service industry. Industrial enterprises seldom take advantages of operating a franchise. The study has used the following methods: the method of classification, synthesis, decomposition and expert estimation. The paper offers the proprietary matrix of the industrial enterprise position according to the criteria: market share/using advanced technologies. The matrix is based on the market share of the enterprise, advanced technologies gained through a franchise, purposes and tasks of the industrial enterprise according to its position on the market. Thus, the analysis of market positions of the enterprise helps to take into account the impact of the environment as, currently, it is one of the most determining factors.

**Keywords:** development prospects; developing industrial enterprises; developing tools; franchise, franchise strategy

### RESUMEN:

El propósito del presente estudio es evaluar las perspectivas del desarrollo de la empresa industrial a nivel de franquicia. El desarrollo de empresas industriales a través de franquicias es urgente debido a tecnologías avanzadas limitadas. Sin embargo, una herramienta de este tipo para desarrollar empresas industriales como franquicia a menudo es considerada en la industria de servicios. Las empresas industriales rara vez toman ventajas de operar una franquicia. El estudio ha utilizado los siguientes métodos: el método de clasificación, síntesis, descomposición y estimación de expertos. El documento ofrece la matriz propietaria de la posición de empresa industrial de acuerdo con los criterios: cuota de mercado / uso de tecnologías avanzadas. La matriz se basa en la cuota de mercado de la empresa, tecnologías avanzadas obtenidas a través de una franquicia, propósitos y tareas de la empresa industrial según su posición en el mercado. Por lo tanto, el análisis de las posiciones de mercado de la empresa ayuda a tener en cuenta el impacto del medio ambiente ya que, actualmente, es uno de los factores más determinantes.

**Palabras clave:** perspectivas de desarrollo; desarrollo de empresas industriales; desarrollo de herramientas; franquicia, estrategia de franquicia

# 1. Introduction

Competition control on the industrial markets and growth of consumer requirements at the enterprise are modern trends of market relation development. All market segments strive to dominate their market positions and increase the market share [1]. Besides, contemporary consumers cultivate steadily positive attitude to famous brands. That focuses considerable extra attention to a franchise as a commercial business arrangement of an enterprise for it to be cost-effective, represent a famous trademark and have a high competitive position [2].

Meanwhile, the matter of scientifically-based franchise operating during the global financial and economic crisis still remains [3]. This fact restricts expanding franchises in industrial enterprises.

At the same time, poor franchising of industrial enterprises is a powerful incentive to indicate problems of franchise expanding. Thus, the authors believe that franchising activity of industrial enterprises is an urgent scientific and practical matter.

The research is based on the fact that the current activity of industrial enterprises is not effective and does not meet contemporary market and industrial consumer requirements [4]. It may be connected with falling behind their foreign competitors according to technological development. The research of scientists [5-19] states that a franchise is the most effective way under the given conditions.

The works of the scientists contain many general valuable and scientific thoughts about franchise effectiveness at any type of an industrial enterprise. But this fact does not exclude further studying the problem, as in our opinion, not all the matters have been properly studied.

The scientists dealing with franchise matters do not have a basic conceptual approach to defining a franchise. It is defined as: 1) an arrangement of business relations between independent parties on mutually beneficial conditions, 2) the right to operate a business on behalf of another person according to the principles formulated by a franchisor, 3) providing a franchisor's trademark to franchisees.

The authors of the article consider a franchise as a system of mutually beneficial business relations between two parties (a franchisor and a franchisee) based on the franchise agreement. Under the agreement the franchisor grants the rights to market product or services using the trademark and operating methods of the other party to the franchisee according to the developed technologies and standards for the terms specified in the agreement and in a certain region and accepts payment for the franchise [20]

When studying the literature on franchising industrial activity of enterprises [21,22,23] we have come to the conclusion that franchising market aspects dominate. External environment of an industrial enterprise causes the implementation of efficient technologies under the franchise agreement. That's why the main part of the research is the analysis of the market position of industrial enterprises. The purpose of the research work is to assess the prospects of the development of industrial enterprises on a franchise basis.

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## 2. Methodological Framework

Now we would like to present and discuss the logics of the study using the BCG matrix as its base. The authors have their own viewpoint on the starting point of using franchising technology at industrial enterprises (Fig. 1).

**Fig. 1**

Matrix of the industrial enterprise position on the market according to the criteria: market share/using advanced technologies.

Degree of using advanced technologies developed by the other party

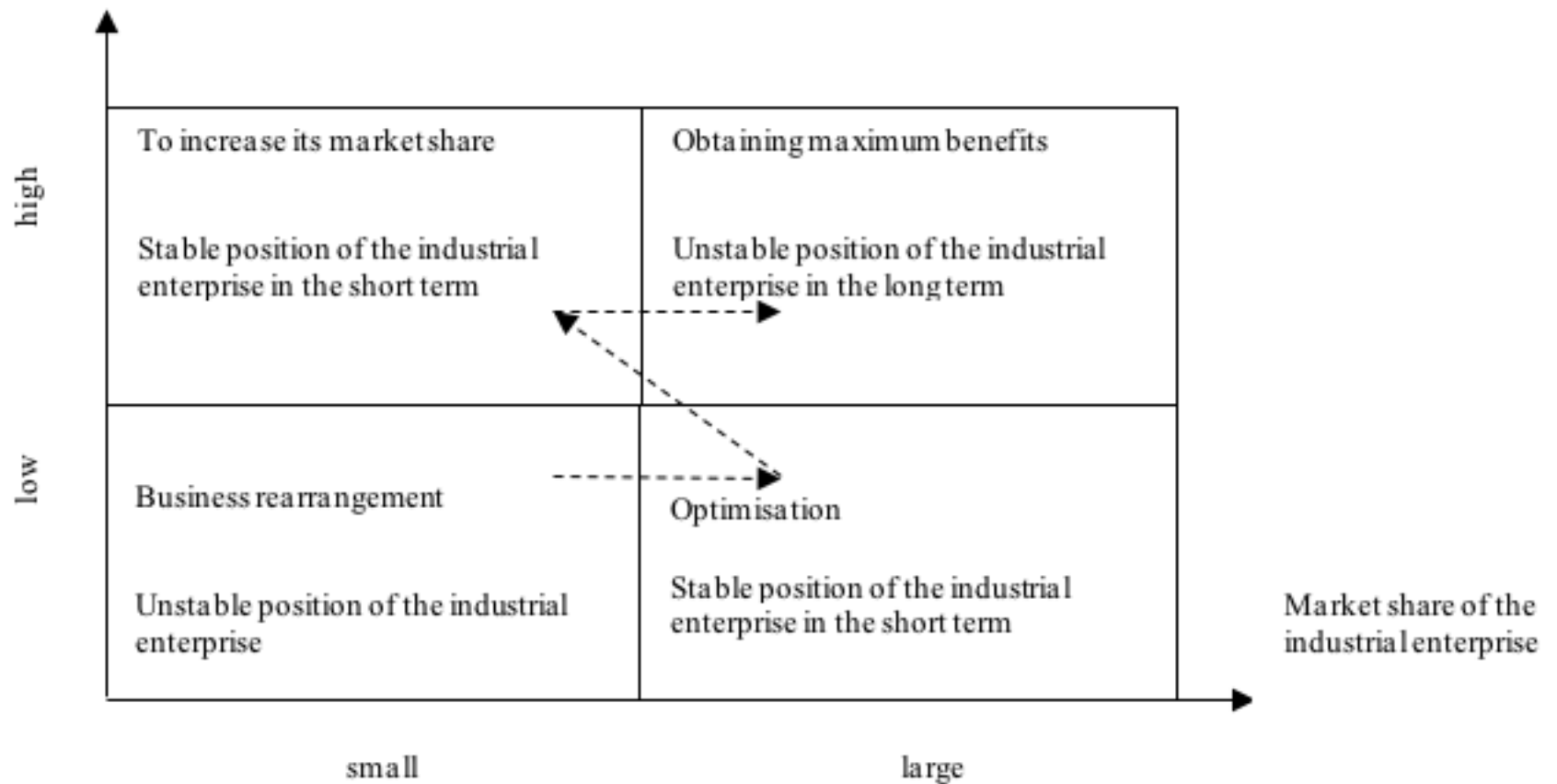


Figure 1 describes the assessment criteria of the market position of the industrial enterprise. They are the market share of the industrial enterprise and the degree of using advanced technologies developed by the other party. The authors distinguish three market positions of the enterprise: unstable, stable in the short term (no technologies and high market share or using technologies and low market share) stable in the long term.

**Table 1**  
Matching the market enterprise position and the purposes and tasks

Market position of the industrial enterprise	Purposes of the industrial enterprise	Tasks of the industrial enterprise
Unstable position	Increasing market positions, searching the franchisee for acquiring advanced technologies	Renewing the production with advanced technologies, increasing market share
Stable position in the short term	Increasing market positions	Expanding markets, searching new customers, building customer loyalty
	Searching the franchisee for acquiring advanced technologies	Renewing the production with advanced technologies to become more competitive
Stable position in the long term	Keeping market positions	Introducing relationship marketing, observing new advanced technologies

The matrix is mentioned to develop the conceptual marketing principles. It particularly concerns the BCG matrix when substituting the market growth rate for the degree of using advanced technologies. Only the technologies adopted for use at the enterprise are understood to be studied. To carry out a detailed study of the matrix let's have a look at market positions and match them and the purposes and tasks of the industrial enterprise (Table 1).

As Table 1 shows, particular purposes and tasks of the industrial enterprise match its market

position. But when setting the purposes and tasks according to the proposed matrix, searching and selecting the franchisor must be based on the market aims of the enterprise development and the choice of the further business strategy towards the franchisor. Thus, the main principle assessing the prospects of franchising industrial enterprises is being formulated.

### 3. Results

Two industrial enterprises in Kirov (Kirov region) have been chosen to be the targets of the research, namely: (JSC) LEPSE Electrical Engineering Plant and BioChemPlant Ltd. Let's indicate their market position and match their real purposes and tasks according to the technique in Table 1.

According to the expert estimation data (November 2016), the market share of LEPSE Electrical Engineering Plant is small, the degree of using advanced technologies is low; and at the same time the market share of BioChemPlant is small, the degree of using advanced technologies is high.

The market position of LEPSE Electrical Engineering Plant is unstable and the market position of BioChemPlant is stable in the short term.

According to Table 1 LEPSE Electrical Engineering Plant is to set the following development purposes: a) increasing market positions, and b) searching the franchisee for acquiring advanced technologies and the following tasks: a) renewing the production with advanced technologies, and b) increasing market share.

Then, let's match the real purposes and tasks of LEPSE Electrical Engineering Plant and the ones proposed by the authors (Table 2). Table 2 shows that they partially match. In our opinion, the plant should pay more attention to using advanced technologies which can be bought on a franchise basis. This proposal may improve the market position of the plant and increase its productivity and stability.

**Table 2**  
Matching real purposes and tasks and the ones proposed by the authors

Matching criteria	Data of LEPSE Electrical Engineering Plant		
	Real purposes of the enterprise	Purposes proposed by the authors	Matching
Purposes	introducing advanced technologies and equipment, advanced materials and element base	increasing market positions, searching the franchisee for acquiring advanced technologies	partial
Tasks	searching new customers and markets	renewing the production with advanced technologies, increasing market share	partial

Consequently, BioChemPlant is to have the purpose of increasing market positions, and is to set the following tasks: a) expanding markets, b) searching new customers, and c) building customer loyalty. Let's match the real purposes and tasks of BioChemPlant and the ones proposed by the authors (Table 3).

**Table 3**  
Matching real purposes and tasks and the ones proposed by the authors

Matching	Data of BioChemPlant		

criteria	Real purposes of the enterprise	Purposes proposed by the authors	Matching
Purposes	searching new customers, increasing market share	increasing market positions	complete
Tasks	searching new customers and markets	expanding markets, searching new customers, building customer loyalty	complete

Table 3 shows that they completely match. That proves the fact that this plant has a more efficient development trend.

## 4. Discussions

The results of the study confirm the considerable importance of influencing the market factors on the industrial enterprise development. The proposed concept provides an opportunity to produce workable and effective management solutions in the sphere of using technologies on a franchise basis.

In our opinion, the study may be regarded as the base for franchising industrial enterprises. Every industrial enterprise with its specific economic management is known to be unique. Therefore, the proposed model is general and helps to choose only the direction.

## 5. Conclusions

The present research is practice-oriented because it provides development tools for an industrial enterprise on a franchise basis.

Franchising helps industrial enterprises which cannot compete with global market players to be economically rational and to remain profitable using advanced technologies.

The research has some restrictions because of its narrow focus, namely: using a franchise only. The solution to this problem may be further studies in technical and technological development in order to encourage industrial enterprises.

We think that future prospects of franchising the activity and development of industrial enterprises are a methodological background of introducing franchises.

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