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***INTERNATIONAL FRANCHISING ACTIVITY AS A WAY TO PENETRATE FOREIGN MARKETS BY THE EXAMPLE OF MCDONALD’S CORPORATION***

Bachelor thesis

written under the supervision of

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**Warsaw, 2018**

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# Introduction

In spite of the fact that for many global entrepreneurs the concept "franchising" still remains unfamiliar, nowadays world observes almost universal use of its elements in various fields of activity.[[1]](#footnote-1) Such brands as Nike, Puma, KFC, McDonald’s are applied to designation of a cooperation in a form of the business practice: regional center, dealer organization, regional representative office, etc.[[2]](#footnote-2) Such variety says that even in the sphere of global investments, as there is no clear understanding of specifics of the new mechanism of managing.

Franchising is defined as a business unit of the organization of business in which the company (franchisee) transfers to the independent person or the company (franchisee) the right to sale of a product and services of this company. The franchisee undertakes to sell this product or services in in advance determined laws and rules of business which are established by a franchisee. In exchange for implementation of all these rules of the franchisee gets permission to use a name of the company, its reputation, a product and services, marketing technologies, examination, and support mechanisms.

To acquire such rights, the franchisee makes the initial contribution to a franchisee, and then pays monthly fees.[[3]](#footnote-3) It is some kind of lease because the franchisee is never the complete owner of the trademark, and just has the right to use the trademark for payment of monthly fees. The amounts of these fees make a reservation in the franchising agreement (contract) and are a subject of negotiations. The franchising rights (the complete system of business transferred to the franchisee) allows the corresponding entrepreneur to do the business successfully, even without having preliminary experience, knowledge or training in the field.

The background of the dissertation is presented by the fact that today in the world practice sellers of products, goods and services are designated by the most known trademarks of firms: "Coca-Cola", Adidas, "Copier", "Shell", “KFC” and many others. These trademarks are unambiguously associated at us with the certain producer having high reputation and indirectly specify high quality of goods and services. McDonald’s is one of them.[[4]](#footnote-4)

The topic. The topic of the dissertation is presented as: International franchising activity as a way to penetrate foreign markets by the example of McDonald’s corporation.

Hypothesis. The hypothesis of the dissertation is: there would be no international growth of McDonald’s corporation, unless franchising activity was the means of business expansion.

Objectives. Objectives of the dissertation are formed in the following sequence of demands:

1. to define the concept of franchising as per its functioning in second decade of the XXI century;
2. to study the historical basis of franchising network;
3. to undertake the attempts of factorial analysis of benefits to franchisee and franchiser;
4. to investigate the functioning of international franchising networks;
5. to assess benefits and costs involved in the expansion process;
6. to place the market overview: study of blue-chip international franchising network;
7. to examine most profitable contemporary international franchises;
8. to conduct an inferential analysis of McDonald’s corporation as a means of penetration of foreign markets;
9. to present cost-benefit analysis of an international McDonald’s franchise;
10. to derive the success formula to penetrating foreign markets with the use of international McDonald’s franchise;
11. to input recommendations and alternative means to foreign market penetration.

Structure. Starting with the introductions section, the dissertation has three consecutive chapters and a conclusion. The first chapter of the dissertation defines the concept of franchising in the second decade of the XXI century. Its components include definitions of such terms as franchising, franchisee and related elements, historical basis of franchising network, factorial analysis of benefits to franchisee and franchiser, case studies and examples of largest networks.

The second consecutive chapter of the dissertation investigates the functioning of international franchising networks. The chapter explains the methodology to reaching foreign markets by expansion and assesses benefits and costs involved in the expansion process. Moreover, there is an emphasis placed on the market overview: study of blue-chip international franchising network as well as most profitable contemporary international franchises.

The third chapter of the dissertation implies an inferential analysis of McDonald’s corporation as a means of penetration of foreign markets. The analysis convers the scope of conditions set by the McDonald’s corporation along with the cost-benefit evaluation of an international McDonald’s franchise. As the end outcome, the chapter derives the success formula to penetrating foreign markets with the use of international McDonald’s franchise and inputs recommendations and alternative means to foreign market penetration.

Methodology. Methodology section of the dissertation is composed of most reliable data bases: EMIS Professional, Economist Intelligence Unit, Forrester, Bloomberg Professional and Gelloe International. With regards to such methodological inputs, business demands of the dissertation are considered to be accurately met: data is recognized on the international level and is believed to be reliable.

Assumptions and limitations. There are neither limitations nor assumptions included in the dissertation, as mechanisms stated within its framework are to be opened for the scientific and business appetites of the society. Moreover, in order for the dissertation to be beneficial for secondary use, sources and references are accurately presented and placed in the bibliography section.

# Chapter 1. Defining the concept of franchising in the second decade of the XXI century

Franchisee is the company which grants the license or transfers the trademark, a know-how and operating systems to right to use. For example, the franchisee creates a successful product or services.[[5]](#footnote-5) Such sequence, accordingly, results in the special style of work of fast food restaurant. Franchisee researches, and develops business, spends money for business promotion, creates good reputation and the recognizable image (branding).[[6]](#footnote-6) After the company proved operability of the business of the concept and successful reproducibility of this business, she can begin to offer entrepreneurs who want to repeat similar success, to purchase its franchise.[[7]](#footnote-7)

Thus, the first chapter of the dissertation defines the concept of franchising in the second decade of the XXI century.

## 1.1. Definition of terms: franchising, franchisee and related elements

The franchisee is a person or the company which buys a possibility of training and the help during creation of business from a franchisee and pays a service payment (royalty) for use of the trademark, a know-how and the system of conducting works of a franchisee.[[8]](#footnote-8)

The franchisee himself pays costs for business creation. Very often the franchisee provides very profitable discounts for important deliveries (materials, account means). These discounts always give the chance of the franchisee to buy products from a franchisee at lower price and thus it costs cheaper, than to develop business without franchisee.

The franchisee makes the initial contribution for the help with creation and opening of business. The franchisee assumes an obligation to pay monthly fees for use of a trademark and business system and for the support, training and consulting provided by a franchisee is right. If everything goes according to the plan, then the franchisee does successful business, and its profit exceeds costs.

The franchisee is a complete business system which the franchisee sells to the franchisee. As other name for similar system serves the franchising packet which usually includes benefits on conducting works and other important materials belonging to a franchisee.[[9]](#footnote-9)

Franchising relations can be profitable for both parties. The franchisee is interested in the maximum sales in case of the minimum costs. The franchisee shall conform to the rules of business on a franchisor and participate in the promotion and marketing companies which are carried out by a franchisor. Franchisor with concentration works on that being in the lead in competitive struggle that it would be very difficult for one franchisee to make. Franchisor provides necessary support the franchisee could pay all attention to the daily transactions.

Interested in purchase of any franchise shall solve whether such relations are for it acceptable. When the franchisor undertakes liabilities in relation to the franchisee and accepts the entrepreneur as the franchisee, the franchisor thus says: "I trust you, you are a good investment for us, I believe that you will carry out laws of a franchise, and I promise if you follow laws of a franchise and to accept our experience and knowledge, we will protect your business and we will make you rich and happy".[[10]](#footnote-10)

In the American doctrine of a franchising, the franchise is defined as "the preferential right to use of a trademark and other emblems and symbols, including design, logos (logo - the emblem of the organization used on the materials exposed by it) and other materials of identification, methods of advertising and gaining public popularity, patents and a know-how, the business methods which are a trade secret, style and method of registration of an interior, the equipment and devices and also stated by standard economic procedures, protected by the copyright law or registration of trademark, design, the patent or a different way". In this case, franchising represents the complex of exclusive rights consisting from:

* the rights to work under a trade name and/or a commercial designation of a franchisor;
* rights to trademarks, trademarks, etc.;
* the rights to use the commercial information belonging to a franchisor.

British Franchise Association was created in 1977 with an intension to as the control license granted by one person (franchisor) to other person (franchisee), which included the following elements:[[11]](#footnote-11)

1. grants permission or obliges to be engaged in the franchisee during the franchise period a certain business, using the specific name belonging or associated with a franchisor;
2. grants the right to a franchisor to exercise control during the entire period of a franchise of quality of the business which is a franchise subject;
3. obliges to provide the franchisor of the franchisee the help in business which is a franchise subject (the help in the organization of the entity, personnel training, sales management, etc.);
4. obliges the franchisee regularly during the entire period of a franchise to pay to a franchisor certain sums of money in payment of a franchise or goods, the services provided by the franchisee.
5. isn't the regular transaction between holding and its affiliated the companies or between the individual and the company controlled by it.[[12]](#footnote-12)

Thus, franchise should be expressed and interpreted as a contract in which business conditions with the right of paid use of a trade name and corporate technologies of a franchisee.[[13]](#footnote-13)

## 1.2. Studying historical basis of franchising network

As the concept of modern model history of a franchising begins since 1840 when the German brewers began to provide to owners of taverns of a franchise, granting the right of exclusive sale of beer of this or that producer. The idea of "devoted" dealers is already closer to a modern form of a franchising and is realized in 1850 by the German producer of the sewing machines Zinger[[14]](#footnote-14) by sale of contracts for distribution and servicing of the machines in the territory of the USA.

The following important stage are the laws regulating registration of trademarks and their use. In this aspect the fact that to the owner of a registered trade mark the sole right to use was granted to them is important and a possibility of attraction to court of persons which illegally use already registered and published trademark.[[15]](#footnote-15)

Such laws were adopted in Great Britain (1875), in Japan (1888), in Germany (1894). In the USA this law was adopted in 1870, but it was recognized not corresponding by Constitutions, and action included the law adopted in 1881. The final end to legislations on trademarks to this time span was put by the Madrid Agreement on the international registration of signs.[[16]](#footnote-16)

At a turn of the XIX - XX centuries General Motors, Rexall Drugstores, Spar, Ben Franklin, etc. began to use a franchising actively. The preferential relations between the franchiser and the franchisee were based on the wholesale and retail principle, namely, the retail trading organizations used brand of trading company, but at the same time kept the independence.

The present stage of history of a franchising can be carried to the 1950. Prerequisites of development of a franchising in that form which is now were shown in the period of "baby boom" – during sharp increase in birth rate in the USA after war. During this period increase in production of goods and rendering services, first of all, in the sector of public catering was required. The most common franchises in the world from the USA are presented on the Illustration 1 below.

**Illustration 1. The most common franchises in the world from the USA (2107)**



Source: Goldberg E. (2014). “How-To Franchise Guide: The Basics of Franchising.”. Source: http://www.franchising.com/howtofranchiseguide/what\_is\_franchising\_the\_basics.html Accessed: 12.02.2018.

In the early fifties the last century the direct-sales representative Ray Kroc visited fast food restaurant which was managed by MacDonald’s brothers. Enraptured with nourishing French fries, Kroc redeemed the rights to a franchising, and one of the most successful franchising companies in the history of the USA has appeared. The company was named as McDonald’s. Other known brand which is given rise during this period is Baskin Robbins (ice cream).[[17]](#footnote-17)

Intensive development of franchising business fell on 1960 - 1970 years of the last century, but along with it there was a large number of lime franchises – firms with the insufficient equity and weak government that resulted in a large number of the deceived and ruined franchisees. It pushed to creation of International association of a franchising and the European association of a franchising and led to development the regional associations.[[18]](#footnote-18)

In the eighties the XX centuries large American corporations began to lay off middle managers in attempt to optimize the expenses. In this, apparently, hard time, the franchising system received a rebirth. The former managers wanted to start own business, but at the same time aimed to minimize risks which are inevitable in case of development of the new direction "from scratch". Purchase of a franchise became for them an optimal variant as assumed work on himself, but with a certain support from the franchisee.

Franchising history (in that type in what we know it now) contains a little more century. However for several decades it became one of the most popular methods of the beginning of own business. According to the statistics only 15% of the small enterprises created literally from scratch survive within the first five years of work. Only 13% of franchising firms stop the activities during the same time.[[19]](#footnote-19)

In total in the USA there are about 770 thousand franchise enterprises. According to Forbes 2017, they provide more than 8 million workplaces. Their total turnover is estimated in $750 billion.

Today the franchising companies are widely developed more than in 70 economic sectors. The main exporters of franchises are the USA, Japan, Canada, Great Britain, Germany, Australia and France.

## 1.3. Factorial analysis of benefits to franchisee and franchiser

**Benefits to the franchiser:[[20]](#footnote-20)**

1. fast expansion of the markets, increase in sales volume and territorial expansion of business;
2. lack of maintenance costs of the vertically integrated network of management, i.e. cost reduction on personnel;
3. lower level of own capital investments;
4. state registration of the agreement of a franchising;
5. rise in prestige of firm and its trademark, recognition from a clientele, growth of trust to quality and a single product assortment of firm;
6. income from sale of the license;
7. profit on possible leasing of the franchisee of the real estate and equipment;
8. profit on possible crediting of the franchisee and on reduction of terms of turnover.

**Disadvantages for the franchiser:[[21]](#footnote-21)**

1. receipt of a smaller part of profit from the trade franchising enterprise, than from own;
2. the low reputation of one of the franchising entities in the absence of due control of quality can affect reputation of the firm;
3. difficulties of control of reliability of financial statements of the franchisee;
4. difficulties with matching of business of the franchisee, competent of bases;
5. training the franchisee, the franchiser trains for himself the possible competitor.

**Benefits to the franchisee: [[22]](#footnote-22)**

1. an opportunity to become the independent businessman with the minimum initial capital investments with full support of the pilot franchiser;
2. the franchiser can render assistance in access to credit resources both commodity, and cash;
3. instant acquisition of reputation among consumers due to business under the acknowledged trademark or a trade name;
4. an opportunity for a moderate payment to use results of large-scale promotion activities, scientific developments and the marketing researches conducted by the franchiser;
5. a possibility of business by the incompetent person due to training in firm of the franchiser in high-quality standards;
6. security of fixed supply;
7. a possibility of acquisition of fixed assets at the franchiser by leasing or on residual cost.

**Disadvantages for the franchisee:[[23]](#footnote-23)**

1. the control exercised by the franchiser leaves less independence in business;
2. loss of reputation by the franchiser will lead the franchisee to loss of own reputation;
3. the services provided by the franchiser, for example compulsory contributions in general advertising fund can represent the serious cost item for the franchisee;
4. danger of deterioration of the situation in the market in case of sale by the franchiser of the business;
5. probability that progress in the equipment, change in the legislation or needs of consumers will be resulted in bankruptcy since franchisees usually realize the narrow list of goods and services.

**Benefits to the consumer:[[24]](#footnote-24)**

1. in most cases the goods and services realized under one trademark have identical quality and infrastructure of the rendered services;
2. if some certain outlet is closed - it is possible to address to the head company;
3. due to quality control from the franchiser, firms usually provide higher service level;
4. the franchisee as owners provide to the consumer services with bigger extent of personal participation.

**Shortcomings for the consumer:[[25]](#footnote-25)**

1. franchising can limit the competition and, as a result, limits the choice of goods and services;
2. the franchisee can be insufficiently trained.

## 1.4. Case studies and examples of largest networks

There are three main types of a franchising.

The first case. A commodity franchising sometimes call "a product franchising (a trade name)". It is a franchising in the sphere of trade for sale of ready goods. In a commodity franchising are usually including the producer selling finished products or semi-finished products to the dealer franchisee. The last performs pre-sale and after-sale service of buyers of products of a franchisor and refuses sales of goods of competitors.[[26]](#footnote-26)

This type of activity, implies acquisition at leading company of the right to sales of goods with its trademark. In this case the franchisee buys goods from a franchisor and after that resells them on behalf of a franchisor. In some cases the leading company is related and for payment warranty services, and to expense recovery for joint advertising. As a rule, narrow specialization of the franchisee on implementation of one type of goods and services is characteristic of a commodity franchising.[[27]](#footnote-27)

In the USA, franchising became popular in the beginning of this century as a method of car sales and gasoline. During this period time a franchising were created at the level of distributors (distributors). Such approach gave a guarantee to producers that their goods will get to buyers just in such type in what they were created. At the same time the name and trademark of the company were widely adopted and brought all benefits to consumers.[[28]](#footnote-28)

Nowadays, the automobile companies and the companies making gasoline according to the American laws aren't considered as franchisor whereas many other companies widely use a franchising as method of distribution and distribution of the goods. Such business method in case of which franchisees buy from leading company the right to sales of goods with its trademark is called a commodity franchising. Nowadays, this type of a franchising is used by several companies, for example, on production of tire covers. If goods and services have no trademarks, they don't join in this category.

Case number two. The production franchising is a franchising on production of goods. In this case the firm owning manufacturing techniques of a certain product sells to the local or regional plants raw materials for production (for example, the plant on a flood of soft drinks).

The small firm here not just acts under trademark of a franchisor and sells its products and services, but also joins in a complete cycle of economic activity of large corporation, fulfilling requirements of engineering procedure, quality, personnel training, accomplishment of the sales plan, the operational reporting, equal with it. This form provides close contact of a franchisor and the franchisee, a detailed regulation of activities and high degree of responsibility of small enterprise.[[29]](#footnote-29)

This type of a franchising is most widely provided in production of soft drinks. Each of local or regional packaging plants is a franchisee from the main company. So, for example, the American Coca-Cola leading in the world market of soft drinks, and in CIS yielding only to the competitor of PepsiCo began active actions in the market of CIS in 1995.[[30]](#footnote-30)

Case number three. Business franchising as known under the title "business format franchising". In case of this method, franchisor sells the license to individuals or other companies on the right of opening of shops, booths or the whole groups of shops for sale to buyers of set of products and services under a franchisor name.

Thus, it is a franchising on a type of activity, i.e. inclusion of small enterprise in a complete production and economic cycle of large corporation. Nearly the most popular type of a franchising in case of which the leading firm sells the license to private firms or the companies on the right of opening of own firm selling products and services under a franchisor name (for example, a hire and consumer services, business and professional services to business and the population, shops or chains of snack bars, hotels). From large corporation requirements to engineering procedure, quality, equal with it, are imposed and also personnel training, the choice of the platform of a construction of the entity, other services (methods of ensuring sales, maintaining the operational reporting, etc.) is provided.[[31]](#footnote-31)

In case of a business franchising it is required that the franchisee paid fixed fees and also I made fees in the advertising fund which is under authority of a franchisor. Franchisee can lease to the franchisee fixed assets, offer him financing; he has the right to act also and as the supplier for the franchisees.

Now depending on the sizes of the original capital of a franchise the business format is divided into the following main subgroups:

* workplace - working franchise, where the franchisee creates well prepared workplace for the entrepreneur; the main investments - purchase of a counter van;
* Business franchise - requiring larger investments into a production equipment, availability of working rooms, additional hired personnel;
* investment franchise, which main objective - return of the initial amount of investments.

Opening of the first fast food restaurant of world franchising system McDonald's was one of first signs of a business franchising. At present here it is possible to observe very active development of this of the franchisee, opening of new snack bars, etc. Franchising systems take many forms. Franchising systems can unite:[[32]](#footnote-32)

* producer with the producer;
* producer with the wholesale dealer;
* producer with the retail dealer;
* wholesale dealer with the wholesale dealer;
* wholesale dealer with the retail dealer;
* retail dealer with the retail dealer;
* the entity of servicing with the entity of servicing.

This is where, the franchising systems is presented and linked with the producer. It I assumed that the firm on production of chemicals patents a new method of production of ammonia. As this process reduces manufacturing cost of ammonia, let us assume, by 20%, other chemical firms can express desire to apply it.

The license would grant them right to use of new engineering procedure in exchange for a commission fee which is called a royalty. In this case the licensor actually is a franchiser; the licensee is a franchisee. In case of the system of a franchising connecting the producer with the producer, franchisees remain rather autonomous. Such franchisees have almost complete freedom of action. Policy and procedures can be their own development; even shops and the equipment can be their own design.[[33]](#footnote-33)

The most difficult element of a cooperation of the franchiser and franchisee is psychological interaction. The franchiser shall remember that the franchisee is not his hired employee, but the entrepreneur having complete legal and economic independence. At the same time the franchisee shall remember that after the introduction in the franchising system of its decision shall submit strictly to the agreement of a franchising as any its action influences not only its own financial position, but also all franchise entities (the entities of the franchiser and other franchisees)

# Chapter 2. Investigating the functioning of international franchising networks

The world practice proved that a franchising - one of the most effective methods of business development for the firms which already achieved success and persons interested to develop further[[34]](#footnote-34). On the other hand, franchising is the best opportunity to organize very reliable own business for the small entrepreneur beginning the businessman, even for the person who was never engaged in business.[[35]](#footnote-35)

The relevance of the chapter is explained by the following two reasons. Despite fast distribution worldwide, the history of formation of a franchising was twisting and difficult. Until now, franchising has two inter-related unresolved problems.

The first is connected with illegibility, vagueness of the legal basis, with insufficient study of the legal nature of a franchising. The reason of it is, first of all, in its diversity. Besides, there are noticeable differences in interpretation of a franchising the national right of various countries.

The second element of the rationale of the chapter consists in features of transfer of exclusive rights under the agreement of a franchising and its competent registration. Such rights shall be supported by the relevant documents and are recognized as the franchisee (the user of the brand name).[[36]](#footnote-36)

The legal regulation of a franchise (a business complex) is in many respects determined by the current legislation about licensing of trademarks and trade names. Besides, making of franchise transactions between partners from the different countries falls also under a currency control.

## 2.1. Explaining the methodology to reaching foreign markets by expansion

Strategic planning is a management process of creation and maintenance of strategic compliance between the purposes, its chances and potential opportunities in the field of marketing.

There are several concepts of strategy. A. Chandler, in one of the works in the planning, notes that "strategy is a determination of the main long-term goals and tasks of the entity and approval of a rate of actions and resource allocation, necessary for achievement of these purposes"[[37]](#footnote-37). A. Ansoff. in return, marks out several distinctive features of strategy, namely:

process of strategy development doesn't come to an end with any immediate action. Usually it comes to the end with establishment of the general directions in which promotion will inevitably result in the following scope of benefits to the entity:[[38]](#footnote-38)

1. the allocated strategy shall be used for development of strategic projects, search methods. Such strategy is to concentrate attention on certain sites or opportunities, and, secondly, to reject all other opportunities as incompatible with strategy;
2. need for this strategy disappears as soon as the real course of events gives the organization on desirable development;
3. during formulation of strategy it is impossible to expect all opportunities which will open in case of the project of specific actions. Therefore, it is necessary to use the incomplete, strongly generalized and inexact information on various alternatives;
4. in case of more exact information justification of initial strategy can be called into question. Therefore the feedback allowing to provide relevant change of strategy is necessary.

It is very important to perform strategic planning in any economic situation, especially during the crisis period. Strategic management – the only right option of management, if the purpose – successful development of the entity.[[39]](#footnote-39)

The history of development of world economy demonstrates that the strategic decisions made during crises determine success or failure of the entity for the years ahead. Those entities that were involved in the development strategy, tried to obtain success and change priorities of the activities.[[40]](#footnote-40)

In crisis time, the dilemma for many entrepreneurs and managers consists in that as well as in what direction to reconstruct the activities with what to use criteria for decision making in the conditions of extreme uncertainty. The algorithm of development of the strategic decision allowing to unite the richest arsenal of modern managerial tools in a single logical chain is necessary for the strategy development providing increase in value.

Therefore, barter can be profitable to all countries on condition of the correct forming of structure of export and import. Therefore it is necessary to increase scales of the foreign trade exchange. For achievement of the greatest economic effect of participation in the international job specialization it is necessary to develop production of export products (products) which allow to receive the greatest currency earnings per unit of costs of a social labor and to import those products (products) which own production would involve the greatest costs of a social labor per unit of the spent currency means.

Depending on the purposes of the entity can plan application in the foreign market of various alternative strategy. If the entity already controls a part of the market on a certain group of goods, it can taking into account specific circumstances, accept one of the following strategy: creative, defensive, "removals of cream" or leaving from the market. When approaching on signs of novelty of the market and a product strategy are possible: balancing, maintenance, "development" of the market, growth, risk, penetration or diversified development.

Export of products is a strategic investment project to which and the relation shall be weighed and detailed. In case of export creation organizational tasks are at least significant, than economic indicators.[[41]](#footnote-41)

Success of work in the specific country depends on several factors: from that, how successfully the partner who will represent and advance products in the country as far as he will be powerful, professional is also correctly chosen, interested in a long-term cooperation and ready to invest in development of the imported brand and also from that, how competently and distributor contract is fully constituted. The exit to the foreign market assumes need of carrying out marketing researches:[[42]](#footnote-42)

1. first, the entity shall realize accurately need or desirability of development of market space outside the domestic market;
2. secondly, it is correct to estimate own opportunities;
3. thirdly, the entity shall understand what type of the foreign market corresponds to opportunities of the entity.

Each of the listed conditions assumes assessment of set of factors which influence the choice of the foreign market, the choice of a method of an exit to the foreign market and development strategies in the chosen foreign market.

## 2.2. Assessing benefits and costs involved in the expansion process

Factors of the benefitting from the international marketing environment during the expansion process are including the following elements:[[43]](#footnote-43)

* macro-environment (political and legal, economic, demographic, scientific and technical, sociocultural, etc.);
* mezzo-environment (international environment of internal communications of transnational (multinational corporations) and multinational companies);
* microenvironment (consumers, competitors, suppliers, intermediaries).

The entity which aimed at activities abroad shall understand both restrictions, and in the opportunities inherent in international trade system. In the attempts to organize sale in other country the firm will face the most different trade restrictions. The most widespread restriction is the customs tariff representing a tax with which the foreign government assesses some goods imported into its country. The customs tariff can pursue the aims of increase in receipts (a fiscal rate) or protection of interests of domestic-owned firms (a protectionist rate). Besides, the exporter can collide a quota, that is a quantitative limit of goods of the certain categories permitted to import to the country. The purposes of a quota are preserving foreign currency, protection of the local industry and protection of employment. Embargo in case of which separate types of import are completely prohibited acts as a limiting form of a quota.

The export firm can face also a number of non-tariff barriers, such as discrimination of its offers and availability of the manufacturing standards discrimination against the goods of the domestic country.

Analysis of resource base. Proceeding from analysis results of the international marketing environment, the entity makes assessment of own resources regarding compliance to the revealed opportunities and threats, determines required amount of borrowing of resources.

Decision on feasibility of an entry into foreign market. The entities are involved in activities for international marketing in two ways: or someone appeals to organize sale abroad – other domestic exporter, the foreign importer or the foreign government, – or the entity itself begins to think of an exit abroad. Perhaps, production capacities of the entity exceed requirements of the domestic market or maybe it sees abroad more favorable marketing opportunities. The complex analysis of economic appeal of the foreign markets is made taking into account:[[44]](#footnote-44)

* target analysis;
* demand analysis (its structure, quantitative indices);
* availability analysis of the markets (political and legal factors, logistics, etc.);
* competitive analysis;
* risk analysis;
* resource analysis;
* analysis of profitability.

In an analysis result the markets allowing the entity to maximize a return on capital employed are allocated. Having constituted the list of the possible foreign markets, the firm will shall be engaged in their selection and ranging. The ranging purpose – to determine which elements the market will provide to the firm the highest long-term return on capital employed.

The international market strategy of the entity is developed at the following levels: corporate (a mission, the corporate purposes, the markets, spheres of business), divisional (on divisions, including geographical), business (at the expense of desired objectives), functional (on functional elements).

The market strategy of the company in the international market assumes accounting of both net international aspects, and the traditional elements determining a market strategy of the entity which are transferred to the international market. Firm that experiences the expansion process is to result in one of the following strategies:

* the strategy of global equity leadership – the leading entity on a market share in the international (global) market;
* the strategy of local equity leadership – the entity sets as the purpose to achieve leadership in a market share in the separate national (regional) markets;
* the strategy of a global niche – the entity sets as the purpose to become the specialist in the international market;
* the strategy of a local niche – the entity, without having necessary resources, uses localization benefits (accounting of specific needs of clients, logistics, etc.).

Depending on the degree of differences of resources, differences in motivations of consumers are allocated in the three types of international capital placement:[[45]](#footnote-45)

* cross-cultural positioning;
* repositioning;
* unique positioning in each market.

Cross-cultural positioning can be used in case of lack of essential discrepancies in a consumer behavior and specifics of functioning of the market. In this case strategy and tactics of positioning in the international market completely match the corresponding actions in the market national.

The strategy of repositioning (partial adaptation of trademark) assumes that marketing environment of the countries is similar, but there are insignificant distinctions from the point of view of perception of consumers.

At the same time, strategy remains invariable, thus it can change only the creative concept of strategy implementation or, in case of duplication of an advertising product, the name of goods. The vast majority of the entities entering the international market use this strategy. At first it is necessary to see segments and only then – the country. Use of this strategy allows the company to avoid essential additional costs on promotion.[[46]](#footnote-46)

If the concept of positioning realized in the national market can't be apprehended in other country, the strategy of unique positioning (complete adaptation of brand) providing all stages of positioning goods – from detailed market research, its segments to the choice of strategy and tactics of positioning which differ by nature in the contemporary world practice.

## 2.3. Market overview: study of blue-chip international franchising network

**McDonald’s[[47]](#footnote-47)**

Franchising provided to the McDonald's company world success and allowed to take leading positions in world business. In the USA about 80% of restaurants of this network – a franchise, and in Europe – about 50%. In Russia the first McDonald’s appeared in Moscow at the Pushkin metro station in scarce 1990, having remembered us by kilometer queues behind "the American dream".[[48]](#footnote-48)

Perhaps, this fact does the franchise, most known in the world, also the most unavailable in our country. The capital for opening the "restaurant" under the name of McDonald’s shall constitute at least 1,000 000 USD, and a Rate of Return (ROA) – from 12,5% per annum.

**Holiday Inn[[49]](#footnote-49)**

In far 1952, Kemmons Wilson founded the “Holiday Inn” company in the state Tennessee. The company which became the first hotel company selling a franchise subsequently. Nowadays, the brand is a part of the world's largest networks of hotel business, more than 4,500 hotels in 100 countries of the world. The networks "manages" and is the "owner" of six well-known trademarks among which: Inter-Continental Hotels & Resorts, Holiday Inn Express, Stay bridge Suites and others. The cost of a franchise of this brand begins from 5,000,000 dollars without additional costs. It is essential that the same time, the price of a lump-sum fee at this giant is constituted only 5,000 dollars.

**Subway Inc.[[50]](#footnote-50)**

In 1965, an American businessman Fred De Luca opened small cafe which years later became known as the Subway brand. Success was promoted by a franchise which Fred De Luca began to provide to the distributors since 1974. As of December 2017, the Subway network contained over 43,700 restaurants worldwide. Achievement of such scale of the company required 50 years from which 41 years the brand was focused on sales of franchises. In Poland, for the beginning of 2018, there were 673 cafes of the brand. Accordingly, in the USA and Canada the brand of fast food became the leader in the market, having gained higher market share than McDonald’s. The secret of firm is here that initial costs on business is less, than at McDonald’s. In Subway, there is no kitchen, all products fresh and are stored openly to consumers. Also, companies on a hand fashion for healthy food, the concept of brand – preparation of dishes only from fresh products in front of the buyer.[[51]](#footnote-51)

**Warner Brothers[[52]](#footnote-52)**

Harry Potter series of movies have generated abnormal profits for Warner Brothers company. Charges of the first seven parts of the movie about the young wizard brought 6,4 billion dollars in a moneybox of the company. Series of movies about Harry Potter became the most profitable franchise of world cinema, resulting in the profit of 483 billion USD during seven episodes of the movie.

## 2.4. Examining most profitable contemporary international franchises

According to the World Franchising Report of 2017, there were 18 million workplaces and 2,1 trillion dollars generated in the economy due to activities of franchising companies. In China, these indicators were 825,000 and 47,83 billion dollars, and in Great Britain 465,000 and 11,8 billion pounds sterling respectively. In the world arena, the amount of franchises and profit gains considered to continue increasing. Since then, the number of the companies working on a franchising steadily grows. The most profitable franchises arte presented and listed accordingly.[[53]](#footnote-53)

In City. The brand of INCITY which is engaged in sale of a brand name cloth started the activities more than ten years ago then a significant amount of outlets in more than 80 cities of the country was open. Founders determine the minimum requirements to potential partners:[[54]](#footnote-54)

1. Availability of the minimum floor space from 150 m².
2. The Shop shall be located on the central city street or in popular shopping center;
3. Installation of the single software and use of a corporate trading equipment;
4. Implementation of uniform prices.
5. The lack of a compulsory lump-sum contribution as founders of the entity gain sufficient income on deliveries of original goods acts as the most important benefit of the offer.

At the moment INCITY shops are included into official Forbes rating selling profitable franchises.

Subway. Creators of the known Subway brand are familiar with requirements of modern society therefore they are ready to offer buyers fragrant and tasty food of instant preparation. Franchise successfully works since 1974, and since then the offer of 16 times was recognized as the most profitable and profitable in the world.[[55]](#footnote-55) Corporate sandwiches are perfectly familiar worldwide as most of fans of fast food prefer food of Subway. Founders offer full assistance in the course of business arrangement: Assistance in selection process of the location of restaurant; Creation of the design project of an institution; Consultation in questions of business management. The possibility of the choice of fillers and sauces for preparation of all dishes becomes distinctive feature of restaurant; the menu include vegetables, various meat balls, fresh bread which is baked at restaurant each 4 hours.[[56]](#footnote-56)

Contrast. Especially enterprising and active people try to earn finance in the sphere of entertainments and rest therefore they choose innovative and non-standard methods of income acquisition. Excellent method of earnings – signing of the franchising contract with Contrast which is engaged in opening of hookah clubs. Organizers of an institution underwent the state certification therefore can guarantee full compliance with legislative requirements.

Founders of franchise note the following benefits of the project: Legality of business in the conditions of the antismoking law; Lack of seasonality; Stable demand for entertainments day and night; High profitability. The entity of Contrast differs in the maximum profitability therefore the firm is included into the list of the most profitable options. The interested representatives of the organization with guarantee assist in the choice of a suitable location for opening of an institution. In the course of opening of the next entity organizers promote training and growth of professionalism of personnel.[[57]](#footnote-57)

Columbia. Columbia brand which is engaged in sale of original clothes and footwear and is the largest operator in the market of sports goods in the territory of the CIS is perfectly familiar to dandies and women of fashion of the whole world. Sales started owners more than ten years ago and since then, partners steadily get profit. Sports products belong to a mid-price segment and are oriented to men and women from 20 to 60 years.[[58]](#footnote-58)

Considering the sphere of sales which is oriented to deliveries and implementation of sportswear and footwear, Columbia provides the help in development of the individual design project of shop which will allow to create a stylish and creative sales point.[[59]](#footnote-59)

CosfeeSpace. An international coffee house of CoffeSpace for many years opens new franchising points which give essential profit to the owners. The firm which specializes in promotion of coffee case became organizers. It is worth paying considerable attention to CoffeSpace: the coffee house cardinally differs from most the traditional similar entities because of development of unique design decisions for registration of corporate products and trading floors. Special benefits of the CoffeSpace franchise:[[60]](#footnote-60)

1. Lack of seasonality factor: hot coffee is on sale in a colder season, for the summer period cold drinks are provided;
2. Compactness of a point: placement of trading floor will require no more than 2 squared meters;
3. Possibility of involvement of fixed clients;
4. Receipt of an additional profit on sale of fragrant pastries.
5. Specialists render a maximum of support in the course of the organization of case: the choice of the place for placement of coffee house, registration of appearance.
6. Mainly coffee houses of CoffeSpace place in places of mass accumulation of youth: in educational institutions, shopping centers, on squares.[[61]](#footnote-61)

Yves Rocher. Implementation of cosmetics and perfumery enjoys considerable popularity and demand among a fine half of mankind therefore the similar project with guarantee will be successful and profitable.[[62]](#footnote-62) The prestigious European cosmetic Yves Rocher brand developed the commercial offer of partnership more than a decade ago for all enterprising people who wish to earn on supply of high-quality cosmetics and perfumery steadily. Yves Rocher is the first mono-branded network of cosmetic boutiques in the territory of CIS. The original firm gives support in the choice of space for placement of floor spaces, in personnel training and employees. Depending on the available equity and the area, the founder offers two formats of shops: mini and standard boutique.[[63]](#footnote-63)

Zara Fashion & Zara Home. One of the most known brands selling high-quality clothes of an average price category is the Zara trademark. The main distinctive characteristic of shops is considerable reducing the period of development of design of clothes until its receipt in sale up to two weeks. For this reason new collections appear not two-three times a year, and is much more often. Zara creates about 20 collections of a brand name cloth and accessories a year that attracts a significant amount of regular customers. The franchise offers projects of two formats: Zara City (sale of clothes of popular European brands) and Zara Home (implementation of design goods for the house).[[64]](#footnote-64)

# Chapter 3. Inferential analysis of McDonald’s corporation as a means of penetration of foreign markets

McDonald’s works in restaurant business, a segment – fast food. Restaurants of this trademark work according to the direct license and on the system of franchises worldwide. Feature of this segment is extremely low profitability of business that is connected with products low value added. Because of it, margins remain at the low level. In particular, net profitability constitutes less than 18% at McDonald’s.[[65]](#footnote-65)

However, the quantitative approach in this segment of the market is nevertheless the most effective – the company is one of the most successful in the world and conducts the activities since 1940. As previously mentioned, a crucial element of such success – the scheme of a franchising, with regards to which, it is possible to open a significant number of restaurants worldwide and at the same time the main volume of investment to attract from private buyers of a franchise.[[66]](#footnote-66) Thus, the third chapter of the dissertation presents an inferential analysis of McDonald’s corporation as a means of penetration of foreign markets.

## 3.1. Analysis of conditions set by the McDonald’s corporation

The mission of the company is presented as:" McDonald’s main mission is to be our customers’ favorite place and way to eat." The company shows the consumer focus, the McDonald's aims to become the favorite place of consumption of food and proclaims McDonald’s not just as network of fast food restaurants, and as a separate new "method of food".[[67]](#footnote-67)

As the purpose of any company is generation of profit, and McDonald’s not an exception here. McDonald's aims to be producer which has the most optimum costs in the industry, but not the lowest because he will never refuse the liability to visitors to provide the highest quality.

Concepts of quality follow in all corporation, imparting the culture of quality through the following principles: to be guided by the visitor, to analyze the facts, to estimate people and to constantly improve all aspects of our business. Therefore the system of the purposes of the company looks as follows:

As it was already told McDonald's has very wide circulation worldwide. The network is located in 121 countries and contains about 29,250 restaurants, therefore, and the organizational structure of the company is quite difficult. At world level in the organization a certain department is responsible for each region (McDonald Asia, McDonald Pacific, etc.), then at the level of the country there is a further division (McDonald's the Center, McDonald's the South, etc.).[[68]](#footnote-68)

Thus, the structure (hierarchical) is similar on structure of others global corporations (P&G, Nestle, KRAFT, Unilever, etc.). The organizational structure at each restaurant, is also not allocated with something special: workers are united in crews, control of which is exercised by the manager; managers are subordinated to assistants to the director of restaurant in due time; there is a ranking system and the system of encouragement.[[69]](#footnote-69)

## 3.2. Cost-benefit analysis of an international McDonald’s franchise

PEST analysis is a tool intended for identification of political, economic, social and technological aspects of the external environment which anyway can influence the strategy of the company. PEST analysis of the McDonald's company is believed to involve the following elements within its framework:[[70]](#footnote-70)

Possibilities of the external environment:

1. The company can conduct researches to use green power sources;
2. It is possible to create more new products. To develop new channels of advertising - for example, mobile messages;
3. Some restaurants can be transferred to more luxurious places and to develop for them separate price policy;
4. It is possible to place the restaurants in various areas at the expense of own real estate;
5. Development of advertising in other direction that will attract other categories of consumers;
6. Involvement of heads on development and to implementation of innovations.

Threats of the external environment:

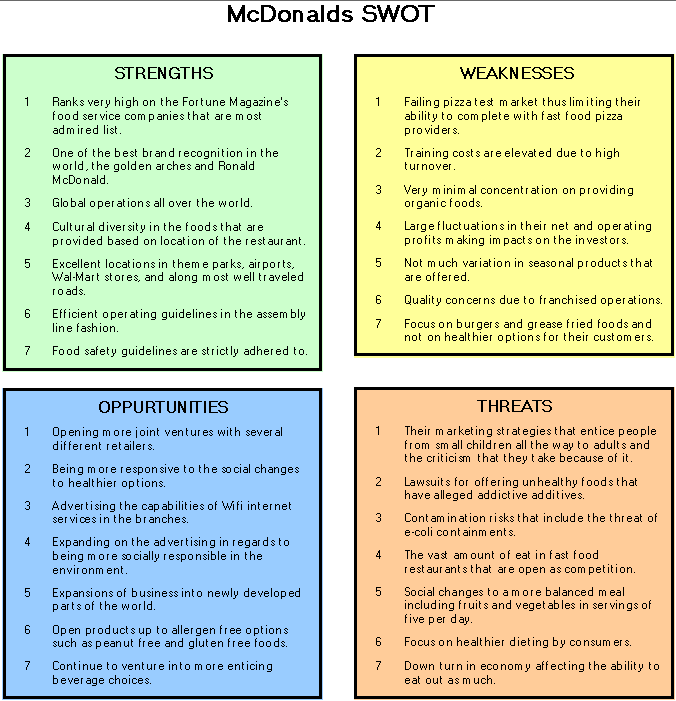
1. One of the main problems - rate fluctuations of currencies as the prices of dishes are standardized;
2. The number of restaurants which reduce the prices of food - Burger King, Starbucks, KFC grows;
3. Food at restaurants of network causes certain problems with health - the McDonald's repeatedly acted as the defendant in cases of harming health;
4. For the account improvement of quality of ingredients, it is possible to reduce risk influence of food on health;
5. Due to strengths it is possible aren't afraid of growth of number of competitors since the nonsense is known by all and good opinion on the company;
6. As the prices are standardized, competitors can lower the price of the products that will lead to outflow of clients;
7. Departure of workers to competitors.

It is possible to draw a conclusion that the McDonald's company special attention should be paid to training of qualified personnel (to allocate financial resources for rates on advanced trainings of employees).

Whenever possible to expand the product assortment and to make more than any shares in certain days. To maintain high quality of the products. To develop strategy for an advertising campaign. It is necessary to accelerate and expand production to increase products amount.

SWOT analysis - an evaluation method strong and weaknesses of the organization, its opportunities and threats. SWOT analysis of McDonald’s enterprise is presented on the Illustration 2:

**Illustration 2. SWOT Analysis of McDonald’s Enterprise**



Source: Kośmider R.; Steinerowska I. (1998). „Franchising jako metoda działalności gospodarczej i jego przydatność w polskich warunkach gospodarczych*”,* [w:] *Społeczno-ekonomiczne aspekty przekształceń́ ustrojowych w gospodarce kraju i regionu,* Politechnika Opolska WSEiA w Bytomiu, Bytom, p. 25-33.

Strengths of McDonald's network of franchises:

1. presence of the company worldwide, leadership in the house and international markets;
2. the brand owns 31 thousand restaurants in 120 countries, having possessed 14 thousand - in the USA;
3. use of the economies of scale;
4. The company possesses Ronald McDonald's House welfare institution;
5. The company constantly increases quality of ingredients;
6. The company has in property a real estate;
7. Some products possess own patented brand names: Big Mac, Chicken McNuggets;
8. Possesses one of the most recognizable logos in the world;
9. The network adapts to the culture of each country;
10. The effective and economic system of handling of products is developed;
11. All information on nutrition value of products is provided to clients;

Weaknesses of McDonald's network of franchises:

1. Advertising is directed generally to children;
2. High routine of a personnel;
3. The restaurant should do something in connection with growth of popularity of natural food ingredients;
4. The price competition to competitors constantly threatens the profit of the company;
5. Not enough innovative products;

Opportunities of McDonald's network of franchises:

1. The company can adapt to different cultural conditions and is open for innovations
2. It is possible to create more new products. To develop new channels of advertising - for example, mobile messages.

Threats of McDonald's network of franchises:

1. Threat of e-coli ingredients and containment;
2. Focus on healthier dieting by consumers.

It is possible to draw a conclusion that the McDonald's company special attention should be paid to training of qualified personnel (to allocate financial resources for the rates on advanced trainings of employees). Whenever possible to expand the product assortment and to make more than any shares in certain days. It is also crucial for McDonald’s to maintain high quality of the products and to develop strategy for an advertising campaign. Finally, it is necessary to accelerate and expand production to increase products amount.

With the help of SWOT analysis it was succeeded to consider the possibilities, threats, strong and weaknesses of McDonald's. The obtained data allowed to determine the main problems and prompted possible solutions.[[71]](#footnote-71)

Carrying out SWOT analysis is an important part of a research of work and activities of the company. Of course, for this purpose, it is necessary to conduct other various researches and to solve the arising problems with their help and to eliminate the available defects. McDonald's represents the large organization working at the market fast food and holding a leading position. It has many benefits before competitors, but also there are also shortcomings which influence a consumer behavior, employees of competitors.

## 3.3. Deriving the success formula to penetrating foreign markets with the use of international McDonald’s franchise

Fundamental laws of the organization when expanding to foreign markets are presented in the following sequence of factors:

1. Law of synergy: any difficult dynamic system aims to gain the maximum effect due to the integrity; aims to use as much as possible possibilities of cooperation for achievement of effects. The law is shown in the chosen organization as without interaction of elements of system, the organization won't be able to achieve effective objectives, such as increase in profit, improvement of product quality and reduction of expenses, etc.[[72]](#footnote-72)
2. Law of knowledge and orderliness: what the organization about external and internal environment has bigger information, that it has high probability of steady functioning. For the considered McDonald's company, knowledge and orderliness are necessary for effective conducting activities. For example, knowledge of market price of the made products, timely recognition of the adopted laws, concerning productive activity.[[73]](#footnote-73)
3. Law of self-preservation and fight of the organizations for survival. This law is inherent in all financially steady organizations including McDonald's. In the sphere of fast food are implemented a large number of the companies, therefore, the McDonald's has big competitors that forces it to develop constantly: to improve service quality or products, to improve skills of workers, etc.[[74]](#footnote-74)

## 3.4. Key success factors of McDonald’s global financial and customer-based success

Considerable weight in success of the company is occupied by standards, tough and obligatory to observance, but the marketing projects realized throughout activities of the company also have bigger value. The analysis below presents the full range of McDonald’s related benefits and incentives to attracting customers on the global scale.[[75]](#footnote-75)

**The location**

On the researches of 70% of decisions on visit of McDonalds takes place absolutely spontaneously. Cafes build in places where probability to glance accidentally maximum, namely, on proximity from metro stations, at intersections of large roads, near the large universities, in the downtown and large shopping centers.

**Entering of clothes standards and appearance of employees**[[76]](#footnote-76)

In the company the noticeable make-up, wearing jewelry, use of spirits and coloring of nails is forbidden. It should be noted that up to 1970 in cafe only men worked, but too began to employ as efforts of feminists of women. The fact of employment of women very much wasn't pleasant to a management of the company as it practically pulled down their plans for forming and preserving tough standards and creation of converseness production process.

The management of "McDonalds" was sure: guys will be distracted by girls and to start office romances at work that will undoubtedly do harm to work process. We will note that it is authorized only to senior manager to wear a skirt in "McDonalds".

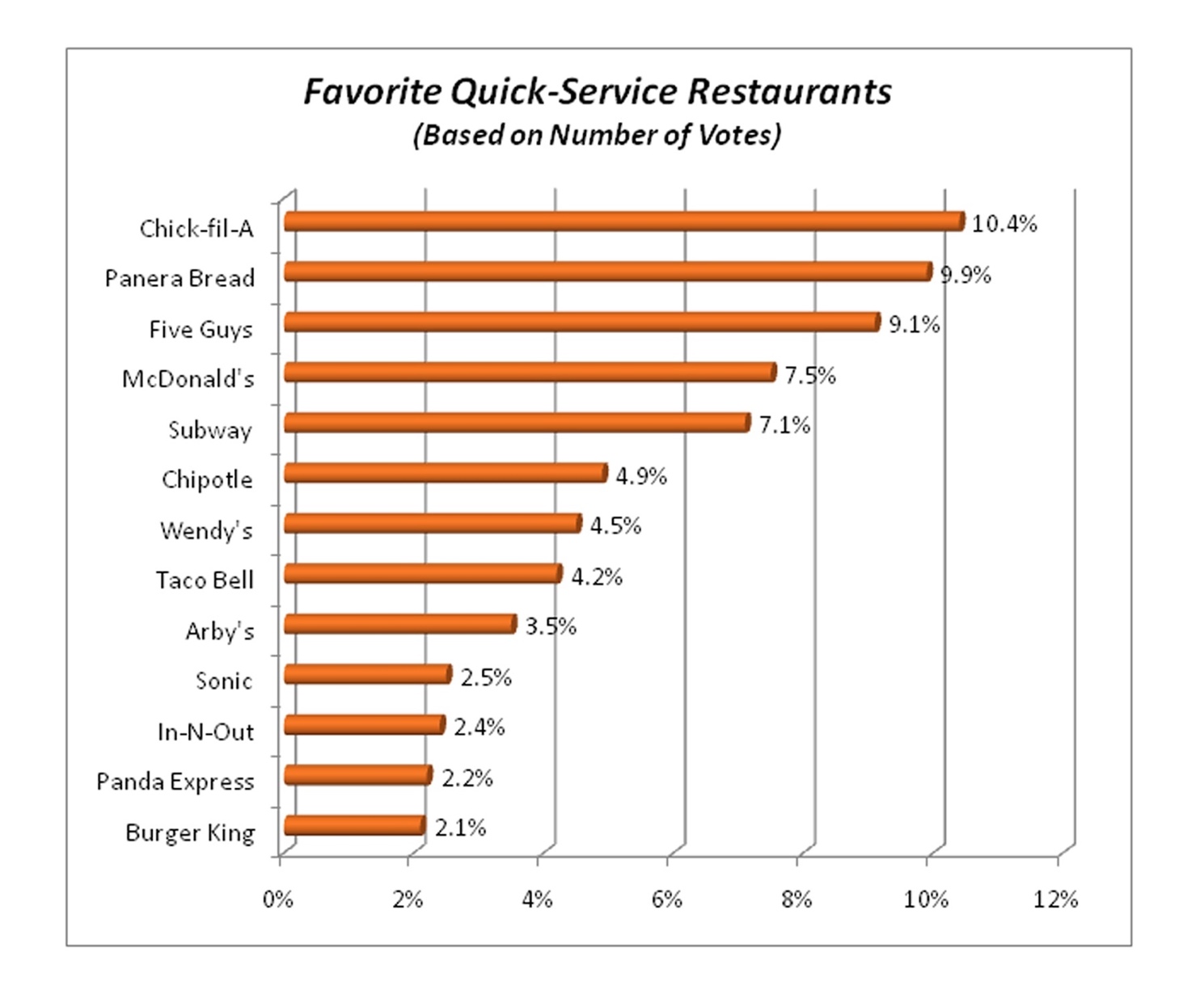
After a while the management of "McDonalds" was once again convinced of correctness of the decisions on depersonalization of personnel. It was noticed that cafes began to visit more families and women were very happy with the fact that their husbands don't stare at nice waitresses as in other institutions such. The female loyalty became a weighty argument for preserving image of women in the McDonalds company. Thus, depersonalization of personnel allows to accelerate work and to serve the bigger number of clients.

**Special attitude towards children's audience[[77]](#footnote-77)**

The management of the company accurately understands that children are that audience which constantly delivers to restaurants of new consumers on behalf of the parents and relatives. In the modern world it is quite difficult for parents to refuse something to the child as owing to the employment they pay it not enough attention and have sense of guilt. "McDonalds" in details thought over the system of attraction through children: game rooms are created, birthdays are carried out to cafe, bonuses to the small children standing together with adults in a queue are distributed.[[78]](#footnote-78)

The personnel of cafe show the increased tolerance and respect for children it is at least, than to their parents. One of postulates of activities of "McDonalds" is the phrase: "if you want that you were fallen in love by the woman, fall in love with her child". The most important means of involvement of children's audience is the burger which is fallen in love to children of all planet of Happy Meal, representing, potato, drink and a small toy for the little consumer. According to the survey from the BCG-2017, McDonald’s occupies the fourth favorite dining place for children. Results are presented on the Illustration 3.

**Illustration 3. Favorite dining places of children in 2017**



Bradach J. L. (2018.) *Franchise Organizations.* Harvard Business School Press, p. 127.

The lunch is packed into a box, attractive to children. Clearly, children very much into being adults, which gives them an opportunity to eat from an own box that fully satisfies their ambitions. It should be noted that toys for children's lunches most often issue series from 8 to 10 pieces that causes in the child desire to collect a collection, and, therefore, to return to "McDonalds" once again.

One more means of inducement of children's audience is the clown Ronald Macdonald who is the most recognizable of all fictional characters after Santa Claus. The clown costs on an entrance to restaurant, participates in advertising campaigns and also visits patients of the American clinics. So, the third secret of success of "McDonalds" is a special focus on children's audience.[[79]](#footnote-79)

**Standard serving sizes and fixed offers[[80]](#footnote-80)**

Standards of the company assume that if the buyer doesn't voice serving size in case of the order, then the biggest automatically makes the way. Such policy saves time, so removes stress in a queue. Also, it makes abnormal profit for the company "McDonalds". Besides, sellers in the network always recommend visitors to take something else with the order, for example, a dessert, sauce or additional sandwich.

**Flavoring features[[81]](#footnote-81)**

Once you note, as in rolls, and in McDonalds cafe add sugar for giving of the best trade dress and taste therefore rolls look fried thoroughly to potatoes, and the taste of potatoes doesn't change depending on a season. Besides, the company uses artificial fragrances.

**The aspiration to develop a habit[[82]](#footnote-82)**

The habit – one of the main engines of the person when making any action, and a management of "McDonalds" knows it as nobody else. People prefer what they got used to therefore the taste of Big Mac doesn't change from year to year. People come into cafe to try fast food with would have the same taste of meals, that does not change for years.

It is necessary to consider that people love also innovations therefore sometimes in McDonalds network there are new offers in the menu, but at the same time the old checked recipes in cafe remain eternal. During the meal, clients have direct contact with around employees.

**Accurately established instructions[[83]](#footnote-83)**

Instructions in "McDonalds" appeared in 1958, in them any actions of the employee of restaurant were described in detail: from temperature of roasting of cutlets to phrases which need to be told visitors. The first "Bible of McDonalds" then contained about 75 pages. Nowadays, the amount is equal to 750 pages, each step is registered not only for personnel, but also practically all are described possible scenarios of the customer behavior which is in cafe.

The main postulates of "McDonalds" are 2 abbreviations: CQPA and CCC, the first of them means "culture, quality, purity, availability", the second "contact, cooperation, coordination". These words are repeated every day practically by all personnel of the company, it is a basis of activities of McDonalds network.

In the conclusion it is essential that "McDonalds" is really extensive and very successful network which realized the strategy of promotion and also develops the activities in all directions, trying to satisfy each buyer by search to it individual approach.

# Conclusion

Franchising is such type of organization of business in which the company (franchiser) transfers the right to sale of a product and services of the brand. Franchisee agrees to be responsible for the sales of products or services in advance determined laws and rules of business which are established by a franchisor. In exchange for implementation of all these rules of the franchisee gets permission to use a name of the company, its reputation, a product and services, marketing technologies, examination, and support mechanisms.

To acquire such rights, the franchisee makes the initial contribution to a franchisor, and then pays monthly fees. The amounts of these fees make a reservation in the franchising agreement (contract) and are a subject of negotiations. The franchising package of rights (the complete system of business transferred to the franchisee) allows the corresponding entrepreneur to do the business successfully, even without having preliminary experience, knowledge or training in the field.

The most difficult element of a cooperation of the franchiser and franchisee is psychological interaction. The franchiser shall remember that the franchisee is not his hired employee, but the entrepreneur having complete legal and economic independence. At the same time the franchisee shall remember that after the introduction in the franchising system of its decision shall submit strictly to the agreement of a franchising as any its action influences not only its own financial position, but also all franchising entities (the entities of the franchiser and other franchisees).

As the dissertation has indicated, franchising in case of McDonald’s penetrates foreign markets fur with the following features and characteristics:

1. McDonald’s franchising contributes to the development of a small entrepreneurship in the country, positively influencing the level of development of separate industries of economy as by implementation of the new ideas, methods and technologies in small business, and due to strengthening of efficiency of positive state influence.
2. McDonald’s franchising creates the complex system of skills training for a small entrepreneurship without creation of any special educational structures and programs, increasing thereby the general culture of the entrepreneurial relations.
3. McDonald’s franchising promotes the problem resolution of employment of the population by means of creation of new workplaces.
4. McDonald’s franchising contributes to the development of foreign trade and attraction of foreign investments due to application of the international markets.

McDonald’s franchising, as a conclusion, is an effective method of the organization and maintaining a business activity. However, despite all benefits, McDonald’s franchising, as well as any business method, is characterized also by certain shortcomings for both parties of the franchising relations.

McDonald’s franchising plays significantly an important role in economy and can soon become the prevailing form of retail trade. It also takes the noticeable place in service trade and a little smaller in production.

Franchising prospers because in it the incentive of personal ownership is combined with managerial and technical skill of large business. For entrepreneurs franchising offers a short way to growth as they receive ready case. For a franchiser, the network of franchising gives the chance of fast expansion. Franchiser grows, allowing entrepreneurs to finance his growth through sale of franchises.

Growth of franchising networks gains the increasing steam on the international arena. If to trust expert opinions, then at the beginning of the third decade of the XXI century, more than 50% of small business will be the franchising entities. It is possible to tell with confidence that in new century the franchising will become the most widespread and practiced business form.

In case of McDonald’s, it is essential that the company has branches in over 70 countries of the world, whereas the majority of the leading franchiser already have the departments in more, than 30 countries of the world and are still interested in further expansion. Practically all of them pay special attention to the projects connected with the market of Russia, realizing its huge potential. Inevitability of penetration of new franchising networks on the markets of the countries of the CIS area, becomes more and more obvious every day.

As well as in America, and in world economy, there is a growth and requirements of the population. Changes in the market economy, new forms and concepts of a franchising will give opportunities for the further growth of the companies on the internationals scale.

The tendency of international growth is perfectly applicable no only to McDonald’s, but also to a large range of pother multinational franchiser networks. This effect, according to the dissertation, is an outcome of international activities and cooperation techniques of the world scale use of suppliers, technology, and understanding needs and demands of consumers.

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# List of key words

International franchising, business activity, franchisor, franchisee, brand image, customer perception, growth, expansion, foreign markets, foreign activity, McDonald’s corporation.

# List of abbreviations

BCG – Boston Consulting Group

CCC - Contact, Cooperation, Coordination

CIS – Commonwealth independent States

CQPA – Culture, Quality, Purity, Availability

KFC – Kentucky Fried Chicken

P&G – Proctor & Gamble

PEST – Political, Environmental, Social, Legal

ROA – Rate of Return

SWOT – Strengths, Weaknesses, Opportunities, Threats

USA – United States of America

USD – United States Dollars

# Summary

The topic of the study is: International franchising activity as a way to penetrate foreign markets by the example of McDonald’s corporation. The hypothesis of the dissertation is: there would be no international growth of McDonald’s corporation, unless franchising activity was the means of business expansion.

Objectives. Objectives of the dissertation are formed in the following sequence of demands: i) to define the concept of franchising as per its functioning in second decade of the XXI century; ii) to study the historical basis of franchising network; iii) to undertake the attempts of factorial analysis of benefits to franchisee and franchiser; iv) to investigate the functioning of international franchising networks; v) to assess benefits and costs involved in the expansion process; vi) to place the market overview: study of blue-chip international franchising network; vii) to examine most profitable contemporary international franchises; viii) to conduct an inferential analysis of McDonald’s corporation as a means of penetration of foreign markets; ix) to present cost-benefit analysis of an international McDonald’s franchise; x) to derive the success formula to penetrating foreign markets with the use of international McDonald’s franchise; xi) to input recommendations and alternative means to foreign market penetration.

Dissertation is composed of three chapters and a conclusion. The first chapter defines the concept of franchising in the second decade of the XXI century. The second consecutive chapter investigates the functioning of international franchising networks. The third chapter implies an inferential analysis of McDonald’s corporation as a means of penetration of foreign markets.

Methodology. Methodology section of the dissertation is composed of most reliable data bases: EMIS Professional, Economist Intelligence Unit, Forrester, Bloomberg Professional and Gelloe International.

There are neither limitations nor assumptions present in the dissertation.

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83. Ziółkowska M. (2010). *op. cit.* p. 129. [↑](#footnote-ref-83)