



**"Prospects of development franchise
between Italy and Ukraine"**

To understand the potential for franchising in Ukraine, it is important to examine the current dynamics of the retail sector.

Ukraine has a consumer market of 48 million people.

The Ukrainian distribution system is, currently, going through a transformation. The wholesale distribution, common in Western Europe, is not yet present in Ukraine.

Nevertheless, a network of more or less specialized shops of various companies is under progress.



MARKET HIGHLIGHTS

There aren't any organisations which distribute on a large scale; some companies carry out various activities among which the commercialization of consumption goods with methods similar to the ones of the International GD.

Some other companies have branches in the city centre and, also, in the surrounding area but they are still far from being timing chains.

The activity of the majority of Ukrainian chains takes place in the venue of the company (first of all Kiev, Dnepropetrovsk, Donetsk, Kharkov, Odessa).


Many chains are sectorial and have 5 to 10 specialized dealers, property of an operating trading in a specific field (shoes, clothes, food, furniture, domestic appliances, building material).



MARKET HIGHLIGHTS

With the growth of domestic consumer capacity, demand for various services is growing and practically all services where franchising can be used represent considerable business opportunities in Ukraine.

The popularity of Italian franchise brands combined with positive macroeconomic trends in Ukraine have created the necessary conditions for successful market entry by Italian franchisers.





MARKET HIGHLIGHTS

A retail revolution has been under way for the past 12 years, ever since the country moved out from under the shadows of the former Soviet Union.

Ukrainians are earning more money. Per capita nominal income is up 16%, and real income is up 7% on average.

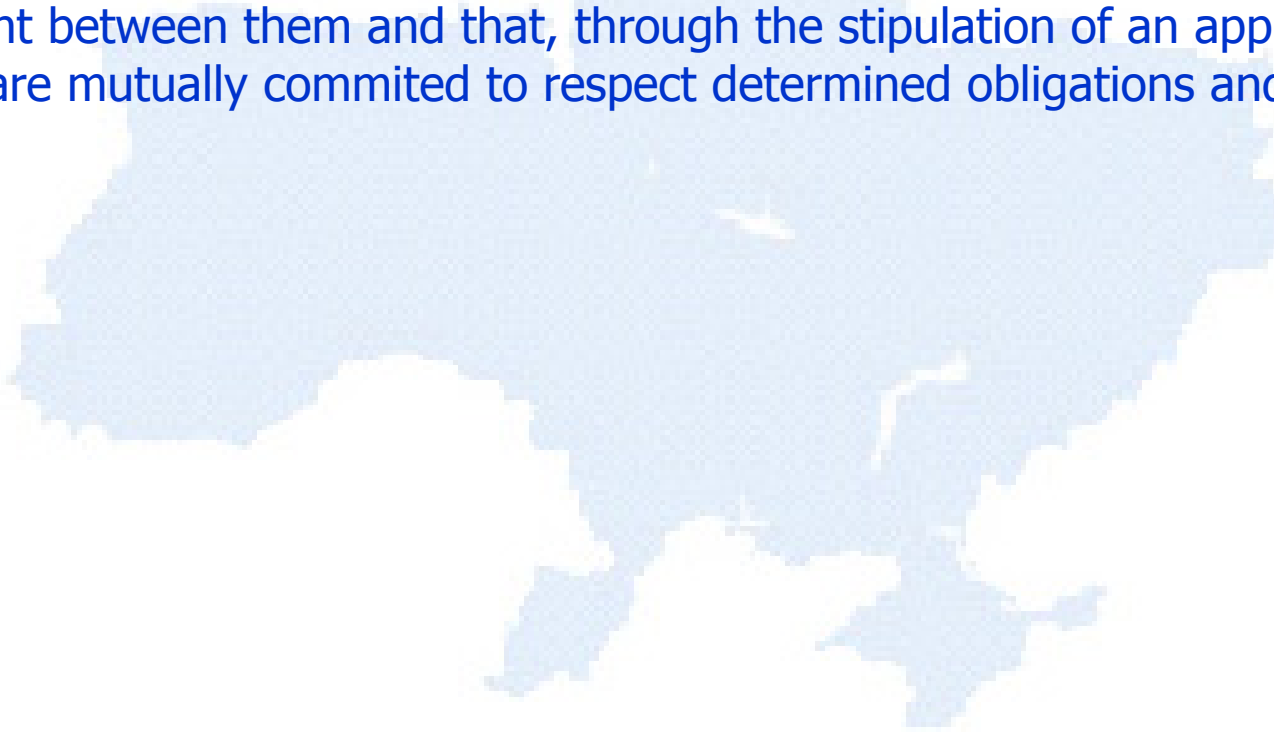
Consumer confidence is also on the rise as the economic recovery continues and wages increase.

Ukraine's population has more disposable income. This is illustrated by the shift in the proportion of food to non-food sales: In 1999 food products accounted for 54% of total sales; by 2004 this figure slid to 46%.

Retailer are benefiting from rising incomes in areas outside Kiev, enabling them to expand their geographic reach.

THE FRANCHISING

Franchising (or Commercial Affiliation) means a continuing collaborative formule for goods or services' distribution between an entrepreneur(Franchisor) and one or more entrepreneurs (Franchisee), juridically and economically independent between them and that, through the stipulation of an appropriate contract, are mutually committed to respect determined obligations and rules.



FRANCHISING FOR FRANCHISEES

Franchisee's advantages

- Minor Risks
- Established Product or Service
- Franchisor Experience
- The importance of the network purchasing power
- Sign prestige
- Efficiency growth
- Management Assistance
- Business Plan
- Activity start up assistance
- Marketing activity assistance
- Financial assistance
- Work ability system tested

Franchisee's costs

- Payment of entry right
- Royalty payment
- Adaptation of the operativity standard procedures
- Burden restrictions to Franchisee
- Weak, unskilled and under capitalized franchisor
- Franchising relationship time
- Reliance on franchising achievement

FRANCHISING FOR FRANCHISOR

Franchisee's advantages

- More rapid expansion
- Greater motivation
- Capital

Franchisee's costs

- Image
- Franchisor's minor income
- Possible competition

ASSOFRANCHISING DATAS PROCESSED BY QUADRANTE SRL

ITALIAN FRANCHISING SUMMARIZING DATAS PROJECTIONS 2005	
SUMMARIZING DATAS	2005
Number of brands	722
Number of Direct Stores	9.853
Number of Franchising Stores	45.153
Number of Abroad Stores	4.570

FRANCHISING IN ITALY

ITALIAN FRANCHISING DETAILED DATAS FOR SECTOR

SECTORS	NUMBER OF BRANDS	NUMBER OF ABROAD STORES
Children's Clothing	26	71
Men/Women's Clothing	86	1.096
Real Estate Agencies	49	924
Travel Agencies - Tourism	26	65
Hotels	5	
Food – Supermarket	22	6
Office Articles – Print	14	12
Nursery School – Game room	11	4
Cars/Motorbikes (Products and Services)	19	64
Shoes/Bags	18	284
Beauty Shops/ Gym	40	127
Cosmetics/Perfume Shops	15	11
Herbalist Shop/Dietary	3	1
Training	19	3
Ice cream Parlour/Vending Stands	11	21
Jewelry, Optical, Costume Jewelry Stores	29	115
Retail Stores/Retail Trade	6	
IT/Videos, Photos shop	30	308
Internet/Telephone market	22	6
Lingerie Shops	18	599
Laundry/Dry Cleaner	7	5
Book Shop	6	
Furniture	31	89
Hairdresser	11	4
General Store/Objects	54	31
Cleaning/ Repairing Shops(Products and Services)	9	16
Restaurant Industry	50	593
Consulting Services	77	115
Postal Service/Communication	8	

FRANCHISING DEVELOPMENT IN ITALY

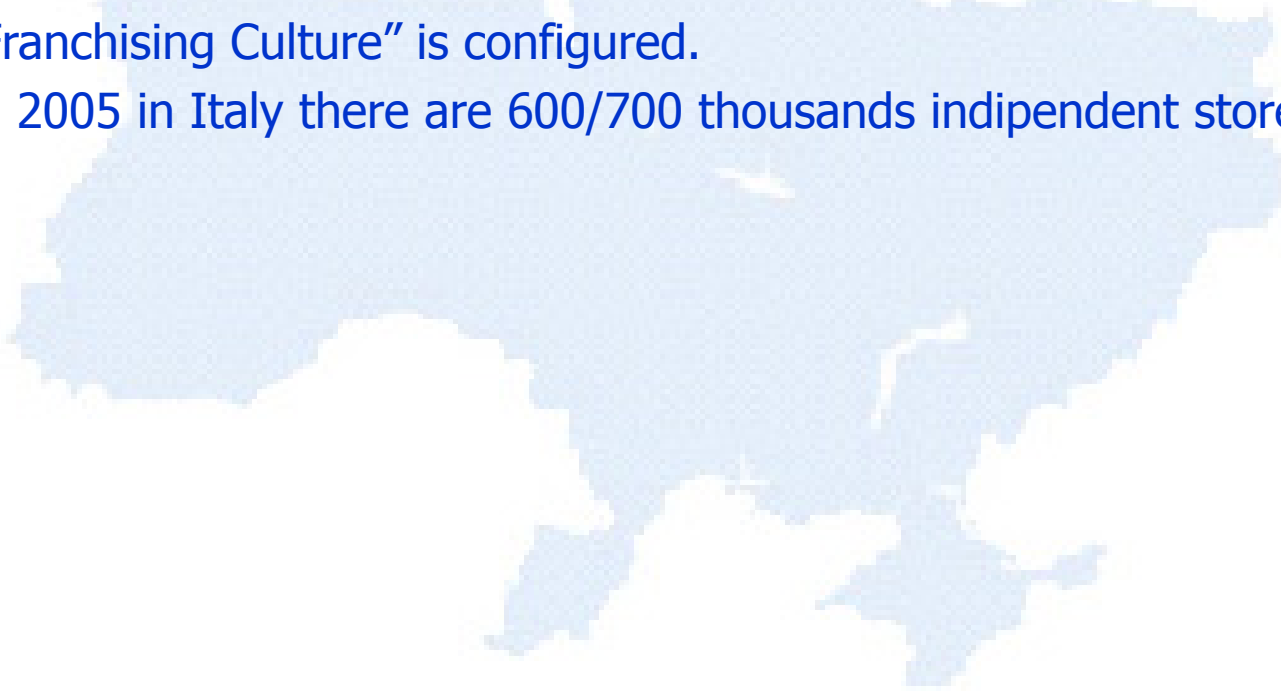
This form of business management appears in Italy at the beginning of 70es and follows an evolution that can be divided in 3 phases:

1. **Pioneer and experimental phase**, from 1970 to the end of '80es: there are about 200 franchisors(1989) in total self regulation tenure;
2. **Strong and convulsive expansion phase**, from 1989 to 2001: in ten years the number grows from 200 to 600 franchisors.

Foreign Franchisors work in Italy, operators' number increases. In the collective imaginary Franchising is the most operable way for who wants to "work on one's one", diffusion of distribution forms wrong named Franchising, use of atypical contracts which exposed the franchisor/franchisee to risks connected to arbitrary legal interpretations. In 1985, The first Code of Conduct processed by Assofranchising. Franchising becomes a structural component of italian distribution system. Approval of Franchising Law.(L. 129/2004).

FRANCHISING DEVELOPMENT IN ITALY

- 3. Current phase:** It is perceived and considered as one of the real levers for internationalization, new enterprises' promotion, costs and distribution logics rationalization.
- "Franchising Culture" is configured.
- In 2005 in Italy there are 600/700 thousands independent stores.



From 1970 Franchising Development in Europe was not accompanied by Legal Regulation. No countries had laws concerning franchising contracts. Relationships between Franchisor and Franchisee were established through contracts in favor of Franchisor and without Franchisee's possible discussions.

CEE NORMATIVE 4087/88 New definition of Franchising:

“Set of rights of industrial or intellectual property relative to marks, trade names, emblems, models of utility, author's copyright, know-how, patents that can be exploited for the resale of products or the presentation of services to the final users”.

The CEE Normative concerning the argument has not ordered norms concerning the contract civil matter, but it has only specified the conditions to apply the exemption from the proscription of restrictive agreements about competitions(art.85, par.1 Cee Agreement), setting Franchising on the competition structure and at large on the economic and social relationships of the Cee, paying attention to solve the problems come out from the compatibility of this contract agreement with the anti-trust norm.

CEE NORMATIVE 2790/99

Unlike the first one this normative does not concern specifically franchising but collects the laws relative to vertical agreements' collective exemption with the same effects of Regulation 4087/88 that now is repealed.

TABLE OF COMPARISON

COUNTRY	Number of franchise brands	Number of franchise outlet
Italy	708	44.426
France	835	36.773
Germany	845	45.200
Spain	650	33.032
Slovenia	106	980
Austria	330	4700
Switzerland	180	-
Greece	430	6.540

Actual Sectors with highest potential for new concepts as well as new concepts:

- Hyper-markets / supermarkets / proximity general stores and their “niche” variants
- Hospitality (retail and service): Hotels and Restaurants, bakeries, coffee shops, take- aways, etc.
- Retail stores: all sectors
- Services:
 - o Property: sales/rentals/maintenance/implantation studies
 - o Business and office
 - o Automotive
 - o Personal (full age-span): care/health/beauty/service/

According to the Britain Franchising Association survey more than 95% of franchisee are still now active with full satisfaction after 5 years from the entry on franchising network.

For Italy, the 2004 samples survey, on 65 networks associated to the Italian Franchising Association , has detected that the 93% of the franchisee has renewed the contract at its natural ending.

Franchising activities' growth rate overgrows the one concerning independent detail.

This is why Franchising represents an excellent option.



INTERNATIONAL FRANCHISING

Franchising is one of the many available strategic expanding systems

In a world that is growing, with global consumers, the internationalization offers not only profit opportunities but also prestige and intelligent development.

European Franchisors are receiving more and more abroad proposals.

15.000 franchising systems tested worldwide, of which 3.000 come from United States, but the remaining 7000 are in Europe.

INTERNATIONALIZATION MODALITIES 1/3

The proliferation of brands entering international markets has resulted in the establishment of alternative hierarchical structures, varying in the degree of involvement of the franchisor. Here, we describe these structures and the terms applied to them:

1. Master Franchising

Where a suitable indigenous individual or organisation is appointed in a target country as master franchisee to develop that country under the franchisor's brand, trading style and system. Expansion is via sub-franchising on a regional, multiple or single-unit basis.

2. Regional Franchising

Where various suitable indigenous individuals or organisations are appointed in a target country as regional franchisees to develop large identifiable geographical regions (e.g Scotland, Texas, Queensland) in that country under the franchisor's branding, trading style and system. Expansion is achieved via sub-franchising on a multiple or single-unit basis.

3. Area Development Franchising

Where various suitable indigenous individuals or organisations are appointed in a target country as area development franchisees to develop specific geographical areas (e.g. major cities, provincial areas) in that country under the franchisor's trading style and system. Expansion is via co-ordination of managed outlets. Generally, multiple managed outlets rather than sub-franchised ones are preferred with this option.

4. Joint Venturing

Where a franchisor associates with a compatible business partner in a target country (e.g. an entrepreneur, a corporation or a government body) to engage in joint financing and development of that country or parts of that country under an agreed brand, trading style and system. Expansion may be via sub-franchising or development of a managed chain of outlets.

5. Direct Franchising

Where a franchisor directly prospects for, recruits, trains and supports franchisees in a target country through long-distance control from the headquarters, a subsidiary office in the target country or an appointed agent or broker. This option requires the lowest investment by the franchisor, but forfeits hands-on support - the most important element of successful franchising.

There are different elements that Franchisors should consider:

- Trademark Registration,
- Legal Assistance Costs,
- The language,
- The journey,
- Third part commitment,
- Franchising System`s adaptation.

Only if Franchisor is oriented to face this kind of problems, his company is ready for internationalization.



RETAIL MARKET IN UKRAINE

Franchising is still new in Ukraine. However, a remarkable network of retailer shops is rapidly growing on the territory. Local operators are very interested in building their business based on franchising. Therefore, especially franchised fast food and also full service restaurant chains are starting to appear.

Consumer spending and investment expenditure have grown at giddy rates which has led to an increase in consumer demand. This has led to growth in economic sectors that are mainly focused on the domestic market.



UKRAINE CURRENT ECONOMY

After Russia, the Ukrainian republic was far and away the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic.

Shortly after independence in December 1991, the Ukrainian Government liberalized most prices and erected a legal framework for privatization, but widespread resistance to reform within the government and the legislature soon stalled reform efforts and led to some backtracking.

During year 2005, Ukraine's economy has experienced a remarkable evolution in comparison to the past 3 years. An important slowdown was registered, with, however, a positive GDP growth rate of 2.4% in comparison to 2004.



UKRAINE CURRENT ECONOMY

The macroeconomic situation in Ukraine creates favorable conditions for boosting small- and medium-sized enterprises (SME) and new business development.

Moreover, SMEs are likely to receive strong political backing from the Ukrainian Government given the ongoing restructuring in the majority of industry sectors, and their role as a source of political support for market reforms.

Ukrainian government officials eliminated most tax and customs privileges in a March 2005 budget law, bringing more economic activity out of Ukraine's large shadow economy



UKRAINE CURRENT ECONOMY

Franchising is an ideal tool to be utilized in the development of a favorable environment for SMEs. It is widely utilized by existing businesses, as well as by first time businessman and individual entrepreneurs.

For the first group franchising represents a very attractive tool for diversification of business activities and leveraging of risks for the latter group it serves as an unfailing means for starting their own private businesses.

The improving business environment in the mid-term is expected to improve the image of Ukraine in the eyes of foreign investors. Which may attract more foreign franchisers to the local market.



EXCHANGES BETWEEN ITALY AND UKRAINE

The constant growth of attention of the Italian entrepreneur towards our country has stimulated the formation of various manifestations with the aim of presenting Ukraine and its economic perspectives in the various Italian regions.

Both countries show a growing interest for the culture and the language of the other country. In particular, five Ukrainian State University have a chair in Italian philology, and, at the same time, four Italian universities are introducing the teaching of Ukrainian philology. Among various university and research institutes Ukrainian and Italian agreed a collaboration, a cultural exchange and implementation of common projects both in the bilateral and European field.

The non-governmental organisations and the Italian humanitarian associations continue to offer assistance to the Ukrainian children according to the welcoming summer children programmes and, in particular, the children hit by the consequences of the catastrophe of Chernobyl and the orphans.



EXCHANGES BETWEEN ITALY AND UKRAINE

The relationships between Italy and Ukraine, from 1995 until today, have been characterized by a continuous progress of their exchange.

According to the data given by the Ukraine Statistical panel referred to year 2005, the exchange has risen to 2924,2 million dollars , with an increase equal to 20,5% in comparison with the previous year.

Therefore, the trade balance records a negative balance compared to Italy which equals to 863,6 million dollars.

In the E.U, Italy ranks first among the major clients of Ukraine and third among the suppliers.



ITALIAN DIRECT INVESTMENTS IN UKRAINE

Italy ranks 17th among the country-investor.

The fields that offer greater entrepreneur possibility are, right now, the plant field, equipment and materials related to the building and food processing sector, textile/clothes and tourism.

There are , more or less, 100 Italian companies in Ukraine.

Only 20% of these companies are to be found in the Kiev city centre, all the rest are in the surrounding territories.

Investments are made, in large part, in the machinery sector and wholesale businesses.

Italian banks such as Banca Unicredito and Banca Intesa, are dislocated on the Ukrainian ground.



ITALIAN POSITION

Italian brand names are very popular in Ukraine, and Italian franchisers have the advantage over other foreign franchisers because “made in Italy” is overall well known.

The positive trend of the sales for some sectors of Italian consumption goods continues. In particular, the whole fashion field (clothes, shoes, leather) is in a good position on the market, despite the Asian competition.

Following to the birth of a new rich customers, furniture, food and alcohol seem to be the sector in which one may want to invest.

Great opportunities of progress and investments are given by the timber sector, food processing, tourism and the building sector .

CLASS®

Starting from 1979, CLASS has known to read in the stimulating universe of the feminine tastes this natural tendency to the minimalism of quality but attentive to details. That is the why the modern woman has found in CLASS a practice and original line of clothes which are suitable in every occasion of the day and to underline, with elegance and glamour, the harmony and the feminine character.

As the formula works, CLASS has decided to go abroad through the help of a skilful partner in treating the development and exporting its brand not only in Italy but all over the world.

BRD's CLIENT'S ITALIAN FRANCHISORS

**PRÉ
NATAL**

Prénatal is the largest chain of stores specialized in the sale of products for mother and children, including clothing, juvenile items, toys, accessories and special toiletries.

The Prénatal brand, established in 1947 in France, has been part of the Italian group Artsana Spa since 1996 and is currently present in 8 countries with 326 stores.

It's European-type, unified approach entails the application of a single marketing mix. In all of the Prénatal stores, expecting mothers and mothers are provided with a specialized support service with unique features as it is created to reassure, advise and inform.

BRD's CLIENT'S ITALIAN FRANCHISORS



I Buoni d'Italia is a company whose goal is the selection and selling of high quality range of products, all grown or produced in Italy.

The store is a delicatessen boutique where the Italian style and atmosphere let the client taste and buy Italian culinary specialties, through the support of the "quality ambassador".

The model offers franchisees two different revenue streams:

- Retailing
- Internet sales

BRD- Business Retail Development

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