

THE NEED OF INTRODUCING AND IMPROVING FRANCHISE IN THE AGRI-FOOD SYSTEM OF THE REPUBLIC OF ARTSAKH

Zoran VITOROVIC

Ph.D., Professor at Logos University, Brasil / USA

Artur NERSISYAN

Ph.D. applicant, Shushi University of Technology

Zaven BAGHRYAN

Ph.D. applicant, Shushi University of Technology

Vachagan DADALYAN

Master's Student in Agribusiness

Stepanakert, Republic of Artsakh

Key words: agri-food system, technological saturation, umbrella marketing, universal brand, franchising model

Introduction. Franchising is a relatively new, but promising economic model in the agri-food system. Despite the fact that there are different opinions about franchising in the professional circles, in post-war Artsakh, this approach can be a stimulus for the reactivation of the agro-processing branch and significantly contribute to the increase of self-employment in the agricultural branch and the introduction of a more flexible culture of doing business. The availability of ready-made business models in the agro-processing segment significantly reduces entrepreneurial risks and mitigates the lack of business experience. Being guided by such a toolkit, along with revitalizing micro-entrepreneurship, will also have a positive effect on increasing the level of business literacy in the agrarian sector¹:

Methodology. The purpose of the article is to study the features of franchising model application in the agri-food sector the Republic of Artsakh.

The purpose of the research is:

1. To study the peculiarities of franchising business in the modern market and the actual possibilities of their application in the SME (Small and Medium Enterprises) branches of the Republic of Artsakh
2. To contribute to increasing the competitiveness of agro-processed products in the Republic of Artsakh through the tools of franchising business

Literature review. As in the agri-food system, as well as in many sectors of the economy, franchising is one of the tools for increasing the efficiency of small and medium-sized businesses. It provides an opportunity to combine the advantages of small and large businesses, as such businesses become more competitive by acquiring

¹ Technische Universität München (TUM)-The Economics of Agro-Food Value Chains
<https://www.coursera.org/learn/valuechains>

advanced technology and support on a franchise basis. The long-term practice of franchising in developed countries convincingly proved its undeniable practical effectiveness¹. For businesses, it is a way of promoting a business, and for entrepreneurs, it is a way of owning a business.

Scientific novelty. Taking into account the peculiarities of the economy of the Republic of Artsakh, microfranchising can become an effective tool in the development of small entrepreneurship, in particular, through the investment of successful businesses in the regions. This will provide both economic and social benefits in terms of reducing poverty, reducing unemployment and solving other social problems. Moreover, it is very important to include international and non-governmental organizations in this project if possible.

It is recommended to introduce a program of providing additional payment for produced agricultural products in the Republic of Artsakh in order to create factors that are an incentive for producers and processors in the field of agriculture in Artsakh. This will lead to an increase in the volume of agricultural products (vegetables, meat, milk, etc.), providing state support to producers and processors, eliminating unreasonable price fluctuations in the market for processed products, and increasing the level of food self-sufficiency in the country.

We propose to provide the planned surcharge only to processors operating in the territory of the Republic of Artsakh, exclusively for the products procured by producers in Artsakh, which will contribute to the increase of price competitiveness in the local and foreign markets.

The above-mentioned model will also be a great stimulus for the development of franchising in the agri-food sector of the Republic of Artsakh.

Analysis. Studying the potential of the economy of the Republic of Artsakh, one can confidently emphasize the agro-processing branch. Agro-processed products are considered not only as one of the sectors enjoying constant stable demand, but also have actual comparability in terms of establishing a processing economy through SMEs.

Enterprises operating in the agri-food sector always expect state support, but find it difficult to justify what kind of support mechanisms should be in place.

The role of small and medium-sized businesses is more realistic when considering the development prospects of the sector. Regardless of the degree of economic impact of an SME, it is very important that the given SME has sufficient resources, both in terms

¹ University of Colorado Boulder - International Business Venturing Abroad - <https://www.coursera.org/learn/international-business-venturing-abroad>

of financial and technological saturation. Resource insufficiency in the agro-processing industry leads to a decrease in the competitiveness of the output.

The lack of professional branding has a significant impact on the competitiveness of agro-processing enterprises operating in the Artsakh market. Branding represents the company's reflection in the market. Proper planning and execution of branding for every business has a serious impact in terms of success and failure in the market. Targeted branding enables tangible differentiation from competitors, but at the same time it is imperative that the firm and the products offered by it meet the expectations that are offered/presented in the market through branding. Therefore, it is vitally important to create a high image of products made in Artsakh in both local and foreign markets in order to gain a real competitive advantage.

Most of the local agro-processing enterprises do not meet the standards required in Western countries due to their quality characteristics, and the hyper-competitive environment in these markets does not provide a realistic opportunity to ensure continuous exports. Therefore, due to quantitative and qualitative problems, the markets of Western countries are currently considered inaccessible. Providing low-interest business loans and leasing is one of the ways to promote the creation of agro-processing organizations and provide a real opportunity for technical re-equipment, expansion, and high-tech application of those already operating in the sector.

Based on the delicacy of the above-mentioned problems in the field of agro-processing and taking into account the riskiness caused by the military-political situation in Artsakh and the resulting limitation of credit resources, it is necessary to develop such a mechanism that will enable to ensure realistic cooperation between the state, the private sector and credit organizations, and franchising can be one of these mechanisms.

Franchising provides wide opportunities for development, integration of large, medium and small businesses, promotion of domestic product manufacturers in the international market, creation of an additional product quality control system, creation of new jobs.

The attractiveness of franchising lies in the presence of indisputable advantages for partners. For individual entrepreneurs and small businesses, it provides an opportunity to get a stable profitable business opportunity, and for well-known firms and companies to expand and strengthen their positions in the market.

Currently, the development of Armenian entrepreneurship, first of all, the development of small and medium-sized businesses is especially complicated due to commercial risks. Implementation of modern business projects requires entrepreneurs to have a wide range of knowledge in marketing, advertising, management, accounting and other areas.

Organization of a business on the basis of franchising significantly reduces business risks, because in this case there is use of already developed and proven business.

Based on the nuances of organizations operating with a franchise model, it is highly desirable to have separate but complementary marketing policies for the B2C and B2B segments¹.

In the B2B segment, large networks play a key role in the volumes and indicators of product sales. The influence of the network dominance formed in the current market is present both in domestic and foreign markets. Despite the fact that there is a strong demand for agri-food products everywhere, large and super-large producers are mostly successful in this field, causing serious difficulties for small-scale producers.

Based on the above nuances, it is desirable to present Artsakh products under one universal brand, with a franchise model. Consolidation of the power of small manufacturers under one brand will significantly increase the level of trust on the one hand, and on the other hand will strengthen the negotiating positions of local manufacturers in B2B relations.

In order to protect the idea of umbrella marketing in the agro-processing segment from possible failures, it is vitally important that one of the main prerequisites for appearing under a universal brand is the introduction of technological and production standards [Harutyunyan, Baghryan, 2022, p.74]. Such an approach will prevent the participation of unscrupulous economic operators and significantly increase the competitiveness of local production.

The experience of Western countries also shows that the level of economic development is also determined by the integration of small and large firms, which are the most important elements of the economy of Western countries. It is noteworthy that large and small businesses are strongly polarized in the Republic of Artsakh. The country lacks an effective medium-sized business, while it is very important for the medium-sized business itself to act as a link between large and small businesses.

Conclusion. In entrepreneurial practice, both in the agricultural sector and in various fields, products with a value advantage often presented to the market by potential entrepreneurs do not provide the desired results due to insufficient knowledge about entrepreneurship. This nuance is very often the reason for the failure of many business ideas and SMEs in the development phase. Therefore, we can state that the use of franchising will make it possible to significantly increase the level of business management, notably reducing the financial resources spent on business processes. It is also important to emphasize that additional opportunities are created for the franchisee and it is easier to

¹ Hubspot Academy-Inbound Sales Course- <https://academy.hubspot.com/courses/inbound-sales>

get credit from financial organizations, because the presence of a franchisee minimizes the credit risk.

Thus, the development of the franchising sector, in turn, will contribute to the promotion of investments in the Republic of Artsakh and the improvement of the agri-food system.

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Zoran VITOROVIC, Artur NERSISYAN, Zaven BAGHRYAN, Vachagan DADALYAN

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Franchising is considered an integral part of modern business practice. In the food industry, this is considered a relatively new but well-established business model. The agri-food sector in the Republic of Artsakh is in the stage of development, but there is still much to be done in systemic terms. From the point of view of state and private sector cooperation, a way to solve the issue could be to introduce micro and small entrepreneurs with limited opportunities under a universal brand. The use of umbrella branding in the field of agro-processing can be an incentive in terms of additional activation of the given branch in the Republic of Artsakh and the formation of a new business culture. In this situation, it is advisable to use the tools of informal economic diplomacy, and to be guided by the logic of the Switching Costs model in the private sector.