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**Deloitte &
Touche**



*Hungary Franchising
Report and Deliverables*

Delivery Order No. 19
Hungary Franchising

Project No. 180-0014
Contract No. EUR-0014-I-00-1056-00
Eastern European Enterprise Restructuring
and Privatization Project

U.S. Agency for International Development
EUR/RME

July 28, 1993

Deloitte & Touche



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July 28, 1993

Ms. Pat Shapiro
EUR/RME
U.S. Agency for International Development
320 21st Street, N.W., Room 4725
Washington, DC 20523

**Re: Contract No. EUR-0014-I-00-1056-00, Deliverables for
Delivery Order No. 19, Hungary - Franchising**

Dear Ms. Shapiro:

In accordance with Article IV of the referenced delivery order, enclosed please find four copies of the remaining deliverables due under delivery order #19. These complete all remaining deliverable obligations under this project which ended on June 30, 1993.

These deliverables were prepared by Brownstein Zeidman and Lore, the subcontractor to Deloitte & Touche for this project under the Eastern European Enterprise Restructuring IQC. If you have any questions concerning these deliverables, please call Lynne Damon at (202) 879-5386. Thank you.

Sincerely,


Kathleen J. Machen
Operations Manager

Enclosure

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DELIVERABLES SUBMITTED TO DELOITTE TOUCHE
TO ACCOMPANY THE
FINAL REPORT ON
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Contract No. EUR-0014-I-00-1056-00

in fulfillment of the
EastEuropeLaw, Ltd., Project:
"FRANCHISING IN CENTRAL AND EASTERN EUROPE: HUNGARY
and with the December 1992 Work Plan

June 30, 1993

EastEuropeLaw, Ltd.
Deloitte ToucheInternational

FINAL REPORT

on

**U.S. Agency for International Development
Contract No. EUR-0014-I-00-1056-00**

**in fulfillment of the
EastEuropeLaw, Ltd., project:
"Franchising in Central and Eastern Europe: Hungary"
and with the Work Plan, December 1992**

June 30, 1993

**EastEuropeLaw, Ltd.
Deloitte Touche International**

I. INTRODUCTION

The contract between Deloitte Touche International and EastEuropeLaw, Ltd. ("EEL") provided funding for a nine-month period for EEL to carry out two basic tasks:

- 1) To increase the understanding of franchising in Hungary and its application to privatization; and, simultaneously,
- 2) To disseminate information about the potential of the Hungarian market to U.S. franchisors.

These tasks were addressed to a degree beyond that set out in the Work Plan; implemented; and, as the deliverables will attest, in general, adjudged a success.

The wide-ranging project activities developed and implemented prior to March 30, 1993, in the U.S. and in Hungary, were set out in an Interim Report. Accompanied by a set of deliverables, that report was submitted to Deloitte on March 30, 1993.

The following discussion covers the activities planned, developed and implemented by EastEuropeLaw between March 30-June 30, 1993, and includes a brief discussion of EEL's conclusions about the project. An additional set of deliverables accompanies this report. See Index, p. 11.

II. ACTIVITIES: April 1 - June 15, 1993

A. **The International Franchise Association/International Franchise Exposition, Convention Center, Washington, D.C.**

EEL-AID activities in April focused principally on the second annual International Franchise Exposition, sponsored by the International Franchise Association ("IFA"), in Washington, D.C. The Expo provides a major forum for visitors, investors and prospective

franchisees and/or Master Licensees to visit the displays of several hundred franchise systems. Some 20,000 visitors attended the first Expo in April 1992. The second Expo featured 342 exhibitors, almost entirely U.S. and international franchisors, and drew an even larger number of visitors.

Through liaison with IFA, EEL arranged that the Hungarian Franchise Association ("HFA") be provided a booth within the section reserved for national franchise associations. Dr. Istvan Kiss, Secretary General of the HFA, requested that Tamás Kovács, Managing Director, EEL, Budapest, who was in Washington on unrelated business, represent HFA. Mr. Kovács was assisted by Christopher A. Nowak, Washington.

They provided information about the Hungarian market, franchising in Hungary and the Hungarian Franchise Association to visitors to the booth. (See Deliverables, A.1.) Prospective investors and franchisors considering the Hungarian market received a copy of "Some Thoughts About International Franchising for the Prospective Investor or Master Licensee." (See Deliverables, A.2.)

B. The Hungarian Franchise Exposition, May 12-13, 1993, Budapest.

Mr. Zeidman and Mr. Kovács in May 1993 represented EEL at the second annual Hungarian Franchise Exposition, sponsored by the HFA. The exposition drew more than 20 exhibitors and hundreds of visitors, a notable increase over the previous year's Expo, which was the first such event ever held in Hungary.

The May meeting provided an occasion to meet a group of Hungarian business persons with a serious interest in franchising, thus facilitating outreach to prospective

attendees at what would be the final activity under this contract, a meeting in Budapest planned for, June 21, 1993.

Mr. Zeidman was invited to address the HFA while he was in Budapest in May, and he did so on May _____. During that time he was asked to meet with a number of private businesspersons as well as with officials of the State Privatization Agency. (See Deliverables, B.1,2,3.)

During the same period, principals of EEL planned and initiated the one-on-one outreach to U.S. franchisors necessary for the transactional meeting between Hungarian investors or Master Licensees and U.S. franchisors, a meeting that would be the final event of the Deloitte-U.S.A.I.D. Contract. (See Deliverables, B.4.)

C. Banking Relationships

Somewhat fortuitously, EEL's initial outreach to Hungarian financial institutions led to relationships that were more in-depth than the project had originally envisioned. EEL's initial meetings with Agrobank, an agricultural bank, and with "OTP National Savings and Commercial Bank, Ltd.," the largest bank in Hungary, and their subsequent interest in developing their own expertise in franchising, led to ongoing and supportive relationships. (See the March 30 Interim Report. OTP and Agrobank both offered their support as co-sponsors of EEL's first important meetings in Budapest in connection with this contract. Both offered their facilities, financial support and access to their mailing lists to draw interested attendees to the January meetings.)

OTP maintained its commitment throughout the project, providing EEL with a mailing list of those of its customers it determined would be likely candidates for Master

Licenses or franchisees. Those companies and businesspersons were invited to participate in the June 21 meeting. Outside of the contract, EEL continues to provide information to OTP about franchise financing, with the expectation that improved access to credit -- one of the principals problems affecting franchise and other business transactions in Eastern Europe -- will be the result.

Early in the course of the contract, EEL was able to provide A.I.D. with training materials to be used in a workshop the agency presented to several banks in Budapest. See Deliverables, C.1. In addition, in part through EEL's work with the Hungarian Franchise Association, another large Hungarian bank has taken the lead in sponsoring certain HFA activities; and a pilot financing program has been established to provide below-market credit to indigenous Hungarian franchisors in their start-up operations.

Finally, contacts have been made with non-commercial lending institutions to raise their level of interest in providing financing to franchised businesses. Those efforts have proven to be productive. The Hungarian-American Enterprise Fund has provided financing to franchised operations in Hungary, far beyond the level of its counterparts in Czechoslovakia, Poland and elsewhere. Further, EEL discussions with the European Bank for Reconstruction and Development ("EBRD") have contributed to a serious interest by EBRD in initiating a venture capital fund for franchising.

It had been planned that further efforts would be made to inform Hungarian banks about the A.I.D. Franchise Finance Program, and EEL principal Philip F. Zeidman had been invited to speak at an A.I.D. banking meeting in Washington in March 1993, as an outreach vehicle to U.S. banks (which, it was hoped, could be attracted to the financing of U.S.

U.S. franchising ventures in the region through this program). The cancellation (or, perhaps, moratorium) of the Franchise Finance program by A.I.D. and the subsequent cancellation of the seminar (scheduled to have been held under the auspices of A.I.D.'s Office of Private Initiatives) occurred in mid-contract. Discussions at the U.S. Ambassadors' Heartland Tour, at which EEL representatives were asked to speak, confirm the conclusion that U.S. banks will not be receptive to such overtures until indigenous and international financing institutions are committed to such programs. See Deliverables.

D. Additional Outreach

Outreach in Hungary between the May and June meetings was the principal responsibility of Tamás Kovács, who developed and supervised a series of mailings to several hundred prospective investors, working both with the two banks that sponsored the EEL meeting in January (the OTP Bank and Agrobank), as well as with other Hungarian resources and contacts. See Deliverables, D.1.

Mr. Kovács (1) had material compiled and translated into Hungarian to provide to serious potential investors more information about specific U.S. franchise companies in different business sectors (i.e., automotive services, food service); (2) completed and had translated an informational brochure for prospective investors; (3) supervised the translation of information sheets provided by U.S. companies that planned to attend the June 21 meeting; and (4) working with Intexpo, a Hungarian meeting planner, executed all the logistics necessary for the meeting in June. See Deliverables, D.2,3,4,5.

Outreach elements included:

- A letter describing the June 21 meeting, including some background about the overall grant program. See Deliverables, D.6.

- Personal calls made by Philip F. Zeidman to approximately 30 U.S. systems, which were an effective supplement to the initial letter.
- A call record was kept on company information sheets, as the status of attendees changed frequently. See Deliverables, B.4.)
- Liaison with EEL Budapest one or more times each day, so that all those involved were kept abreast of ongoing developments.

EEL sent to those franchisors that expressed interest, or that had made a firm decision to attend, a company information sheet to be filled out by the franchisor and be sent to Hungary for translation and distribution to prospective Hungarian investors. See Deliverable B.4 for all planning documents used prior to the June 21 meeting.

III. ACTIVITIES: The June 21 Meeting

Following Mr. Zeidman's trip to Budapest in May, the principal activity during late May and the first three weeks of June involved planning and preparation for the final meeting. The June 21 meeting, held in Budapest, addressed the final task described in the proposal at page 2 of the December 1992 Work Plan (attached):

". . . to initiate contact between U.S. Franchisors and Hungarian master licensees and franchisees."

Activities in June included:

- Meetings, correspondence and telephone discussions in Budapest with 59 identified prospects interested in U.S. franchising (35 were viewed as of appropriate caliber; thereafter, it was necessary to decline requests to participate).
- Preparation of company-related materials and an informational folder for distribution preceding the meeting. See Deliverables, III.

- Communication of final details to attendees, (see Deliverables, III.), including arrangements for translators for U.S. company representatives (paid for by the U.S. companies).
- Reception for attendees and other appropriate guests. See Deliverables, III.
- All-day business meeting between Hungarian businesspersons and U.S. franchisors. See III, photos.
- Evaluation/follow-up, including correspondence from attendees and English and Hungarian press coverage of the meeting.

IV. CONCLUSIONS

1. The U.S. A.I.D./Deloitte grant to EastEuropeLaw represented a unique effort: the first federal funding ever given to promote franchising as an entrepreneurial tool.
2. The interest in franchising in Eastern Europe--and specifically in Hungary, where this project initially focused--was extraordinary.
3. The level of interest -- some generated, much spontaneous -- over the brief course of the project (September 1992-June 1993) underscores the importance of additional efforts in Hungary.
4. The basic premise of this contract was, and is, that franchising has the capacity to energize entrepreneurialism and the small business sector in economies experiencing change in Eastern Europe. As a corollary, it is important to inform and educate the U.S. franchising sector and stimulate its interest in Hungary and other Eastern European markets.
5. The activities carried out under the contract supported this effort and, in our opinion, the meeting on June 21 was a satisfactory demonstration of those initiatives:

- Well over a dozen strong U.S. franchise companies were seriously interested in the meeting, which franchisors attended at their own expense. See Deliverables, III.
- 59 prospective Hungarian investors contacted EastEuropeLaw about attending, and 35 were viewed as being of appropriate caliber to attend the June meeting. See Deliverables, III.

6. Over the course of this project, we have taken part in a number of important meetings outside of Hungary, or been contacted about the potential interest in franchising elsewhere in the region (Bulgaria, Czechoslovakia, Poland, Russia, Romania, Slovenia, etc). These experiences have convinced us that there is an equal interest and need in other countries of the region, particularly Czechoslovakia and Poland; and, quite possibly, the N.I.S.

7. Perhaps the most important long-term conclusion has been in the heretofore unrecognized link between franchising and privatization. We have concluded that franchising has a role in the privatization process, which today is taking place in other countries with widely differing political contexts, and is, of course, of special concern in Central and Eastern Europe.

8. EEL Principal Philip F. Zeidman was asked to discuss this topic, for example, at the World Economic Development Congress, in Washington, D.C., in September 1992; at the World Economic Forum in Davos, Switzerland, in January 1993; and at the International Center for Public Enterprises Seminar on Franchising in Transitional Economies, in Ljubljana, Slovenia, in June 1993. In all cases, the degree of interest was intense.

The Hungarian State Property Agency, like its counterpart in the other former socialist countries, has asked on numerous occasions for assistance in understanding how

franchising can serve as a vehicle for the privatization of state-owned enterprises. See SPA presentation with Deliverables to Interim Report. The Organization for Economic Cooperation and Development's Center for Assistance to European Economies in transition has responded to requests from several countries in the region to send in experts to explain how franchising can be used in the privatization process to increase entrepreneurial opportunities as a technique to promote privatization.

In short, the logical next step in this undertaking is to introduce franchising as a part of the privatization process itself. That was originally contemplated, and was deferred in the interest of economy and time. It is time to return to that original concept.

DELIVERABLES

- A.I. Materials given to visitors to Hungarian Franchise Association booth, International Franchise Expo, Washington, D.C., April 23-25, 1993
- A.2. "Some Thoughts About International Franchising"; included in folder at A.I.
- B.1. Notice, Outline of Zeidman Remarks to Hungarian Franchise Association during Second Annual Hungarian Franchise Expo, Budapest, May 3-5, 1993.
- B.2. Example of business meetings, Budapest, May 1993.
- B.3. Meetings with State Property Agency; paper prepared with the Hungarian Franchise Association and submitted to the SPA.
- B.4. Set of charts, call sheets, company questionnaire used in organizing June 21 meeting.
- C.1. Banking materials used throughout the contract.
- C.2. Corollary Materials:

Heartland Program; Program, Paper from Meeting of the International Center for Private Enterprises
- D.1-5. T. Kovacs materials related to June 21 meeting (Information re Hungarian companies, criteria for selecting attendees).
- D.6 Letter to prospective attendees re June 21 meeting; letter re translations
- III. Materials and folder given to attendees at June 20 reception
Pages from Zentai book presented to Hungarian attendees
Pages from Franchise Directory presented to U.S. franchisors
List of U.S. franchisors attending June 21 meeting.
List of Hungarian prospective investors attending June 21 meeting.
Schedule of meetings between U.S. franchisors, Hungarian prospects (schedule also comprises list of U.S., Hungarian attendees)
Photographs from reception, meeting
Zeidman letter to U.S. franchisors that attended meeting
Letters about meeting from U.S. Franchisors
Press Coverage

Note: The last set of materials are those requested by Deloitte that were not included in the March 30 interim report.

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Material Distributed to Attendees

International Franchise Expo

**Washington, D.C.
April 23-25, 1993**

ments of Czechoslovakia and Russia on the revision of their housing laws. The initial focus in Czechoslovakia is on the drafting of a new condominium law and other housing legislation. in Russia on the potential of uniform housing law.

EastEuropeLaw, Ltd. through its constituent firms and resident counsel in Budapest, would be pleased to discuss your interest in doing business in the region, and to assist you in these transactions. For more information, including any questions you may have, call one of the principals of EastEuropeLaw, Ltd:

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HUNGARY

EastEuropeLaw, Ltd. is a cooperative undertaking of independent lawyers and law firms from the United States and Great Britain. The constituent firms of **EastEuropeLaw, Ltd.** conduct a transactional practice supporting new commercial initiatives, entrepreneurial and educational efforts, initially in Hungary, Czechoslovakia and Poland and ultimately in the other countries in Central and Eastern Europe and the former Soviet Union. The firms serve the legal and business needs of -

- franchisors entering the emerging Central and Eastern European markets,
- real estate, finance and development companies involved in housing and commercial development in these markets;
- transactional matters involving Central and Eastern European enterprises as well as U.S. companies doing business or entering the region.

EastEuropeLaw, Ltd., under the auspices of the U.S. Agency for International Development, is structuring the first regional effort to explain the franchising process and how it can support privatization, initially in Hungary. The unique project represents the first direct assistance by the U.S. government to franchising. Activities will include conferences in Hungary and the U.S. and the production of various materials for entrepreneurs and media in both countries and for both governments.

EastEuropeLaw, Ltd., under the aegis of the U.S. Agency for International Development and the Urban Institute, is advising the govern-

**Representative Hungarian Companies*
Interested in or Already Franchising**

Franchisors

Danubius Hotels	Chain of tourist hotels.
Dunafuszt	Wholesaler of food and chemical products.
Karszitem	Deck/roof maintenance service; interested in becoming franchisee of U.S. company and of developing regional information exchanges so small entrepreneurs become more aware of business possibilities.
Marke Systems	Franchisor of Joker Markets, food chain.
Mecsek Fuszert	Wholesale food company operating 17 retail entities; interested in becoming a Master Franchisee.

Other

Bacs Hamburger	Fast-food restaurant
Bool	Leases and uses state-owned real estate to operate warehouse system.

Companies that attended a seminar on franchising sponsored by OTP Bank and EastEuropeLaw, Ltd., Budapest, January 1993.

Cooptourist	National network of travel agencies.
Fotefu	Could use franchising to buy and sell trucks and cars; to operate gas stations and repair services.
Gasztrokristaly	55 restaurant/cafeteria chain.
Local Government Offices	Some of which are attempting to operate local government services through franchising.
Szikra	Post privatization, plans to build small holiday resort with access to thermal baths.

State-Owned Companies

Baranyaker	Operates a chain of consumer goods shops in 3 cities.
Borsodi ABC	Chain of 45 supermarkets in the Borsodi region. Considering converting shops to franchising.
Fa-Forma	Custom cabinet construction.
KisKunsag Restaurants	Production, ice cream powder; operates chain of restaurants, cafeterias.
Pecs Furniture	Using assets of state-owned company under liquidation to process, manufacture and sell furniture. Considering role as franchisor.



INTERNATIONAL

Franchising Helps Change Economic Face of Hungary

Carol Tiegs, European Correspondent

BUDAPEST, Hungary — What an exciting time to be in Hungary — particularly in Budapest. Budapest has been built, conquered and destroyed, and gloriously rebuilt repeatedly. Most recently, the city grandly prepared for its millennium celebration in 1867, and built on a massive scale into the early 1900s in proportions and styles not often seen in the U.S.

Beneath soot from the fires that burned here for two months following bombing in World War II, grime from years of communist neglect, and exhaust from some of the world's poorest quality gasoline, Budapest is preparing itself for a new glorious epoch. Sandblasting, plaster and paint are transforming the surface, and franchising is helping to transform the economic and business base.

This by way of introduction to the Franchise Conference held May 7-8 and coinciding with Hungary's first franchise expo (CFR Vol.22, No.10). The conference was sponsored by the Hungarian Franchise Association and EastEuropeLaw, Ltd. A key focus of the conference, attended by managers of state-owned companies as well as by potential master franchisees, bankers and attorneys, was what role franchising could play in converting large state-owned companies into profitable, market-driven businesses. A second focus was where money might come from for this or any franchised business.

Managers of two state-owned companies presented their organizations as case studies.

The state-owned Department of Tourism is the largest single catering and restaurant operation in Hungary with over 440 restaurants, cafes and bistros. Its operations also include a mobile service for catering on trains and at special events, a travel agency, hotels, and currency exchange. Privatization must be underway by June 30

Consensus was that the firm offered several viable franchise possibilities using market segmentation to create separate business concepts. Hotels could be spun off into a distinct operation that might be of interest to a franchisor willing to bring buildings and service up to expected standards. Various restaurant concepts might be split apart, or operate as separate concepts under a common tradename similar to the distinct new concepts Holiday Inn has developed to appeal to different market segments.

Philip Zeidman of EastEuropeLaw speculated that the firm might wish to purchase some Western know-how to help set up the business systems, standards and training, but that a Western trademark might not have that much meaning in Hungary. He also warned of the challenges in meeting franchisee expectations for loyalty, confidentiality and total support in a market-segmented franchise system.

MÜRAT, the second state-owned company presented, is responsible for sales and service (80% wholesale, 10% retail, 10% service) in seven areas: security equipment, restaurant and catering equipment, hardware items, warehousing equipment, spare parts, employee protection items and horticultural equipment. Not all stores or products bear the company name.

Obvious questions to determine whether franchising can work here include how large a market exists in any of these areas, and whether these markets could best be served by a few large operators, many small operators, or a dealership system. Clearly where tradenames do not exist, or appear to have no transfer value, franchising is less viable.

Zeidman pointed out two painful results of transforming to a franchise system from a system which has guaranteed everyone work, even if only an hour or so of productive time per day. First, franchising tends to decrease head office needs by spreading management tasks throughout the franchise network. Second, the former state-owned companies may need to cut far back to a healthy core of the business in order to be profitable.

Although he spoke through a translator, the pain of change was clear in the voice of MURAT deputy general manager Jozsef Till as he shared the feelings of many compatriots. "Transformation is a very arduous process. We must make a mental change to profit-making and shareholder responsibility as opposed to old responsibilities to central management. We have the challenge of responding quickly to a daily changing marketplace."

Other challenges include the size of these companies, and foot-dragging by employees who know their jobs may be threatened. Fully one-third of the companies remaining to be privatized are expected to fail. But there are also examples of success, such as MicroAge Computer's transformation of two former state companies into a 22-unit franchise showing profit in its second year. There is no mistake, however, that the Hungarians are deeply committed to change.

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**U.S. AID Funds Deloitte/EastEuropeLaw
Unique Franchising Venture in Central and Eastern Europe**

The United States Agency for International Development ("A.I.D.") has awarded a unique grant to Deloitte Touche International and EastEuropeLaw, Ltd. to promote the development of franchising. The project, focusing on franchising both as an entrepreneurial tool and as a vehicle for privatization in the changing economies of Central and Eastern Europe, will begin in Hungary immediately, with parallel activities in the United States.

EastEuropeLaw, Ltd., is a cooperative undertaking of independent lawyers and law firms from the United States and Great Britain; it is engaged in assisting franchisors and other businesses interested in the new market of Central and Eastern Europe, as well as local enterprises and governmental entities in the region.

The venture has three principal goals:

1. To improve the understanding of franchising by governmental and business interests in Hungary, to assist in the development of locally based franchising and to show the advantages franchising can bring to the small business sector and to privatization.
2. To communicate information about the Hungarian market for franchising throughout the U.S. franchise community and to interest specific U.S. franchise companies in expansion into the Hungarian market.
3. To broaden the understanding by U.S. and Hungarian financial institutions of the opportunities available in financing investment in franchising in Hungary.

Some of the techniques to be used will include:

- Presentations at meetings in both Hungary and the U.S.
- Conferences and workshops, both in Budapest and other cities
- Preparation of market data
- Arranging meetings between U.S. companies and prospective licensees in Hungary

EastEuropeLaw, Ltd., Budapest, will be responsible for implementation of the project, "Franchising in Central and Eastern Europe: Hungary." Philip F. Zeidman, a founding principal of EastEuropeLaw, Ltd., and founding partner of Brownstein Zeidman and Lore, a Washington, D.C. law firm, will lead the EastEuropeLaw efforts.

Deloitte Touche International, an international accounting and consulting firm, is one of the prime contractors for A.I.D.'s programs in Central and Eastern Europe. Deloitte will provide administrative support for the franchise initiative.

David Cowles, the A.I.D. representative attached to the U.S. Embassy in Budapest, said of the agreement, "We are gratified to be able to join those who have worked with franchising worldwide for 25 years in assisting the development of prospective entrepreneurs in one of the most promising of the emerging communities in Central and Eastern Europe. We believe franchising has much to offer to Hungary, and other nations in the region, in supporting their objectives in the areas of privatization, investment promotion, and small business development.

HUNGARY

International Trade

IMPORTS FROM UNITED STATES UP 23.4% THROUGH NOVEMBER 1992

BUDAPEST—Hungarian imports from the United States totaled \$346.8 million in the first 11 months of 1992, up 23.4 percent from the same period a year earlier, according to the latest statistics from the Ministry of International Economic Relations.

Hungary's exports to the United States declined 3 percent to \$272.1 million over the same period, the data show.

Istvan Major, deputy state secretary at the ministry, said Jan. 26 that he expects trade between the two countries to increase in 1993, perhaps to a total of \$700 million.

He said 1992 was a turning point in U.S.-Hungarian trade relations with the United States granting Hungary permanent most-favored-nation trade status in April (2 EER 337, 4/27/92) and Hungary becoming eligible for U.S. and other Western high-technology exports after the Coordinating Committee on Multilateral Export Controls removed the nation from its list of proscribed destinations in May (2 EER 380, 5/11/92).

Ministry spokesperson Klara Fogarasi told BNA Jan. 26 that Hungary's major imports from the United

States were machinery and equipment, which accounted for about 40 percent of total imports from the United States, spare parts (about 30 percent), consumer goods (about 15 percent), and agricultural and food-processing equipment (about 14 percent to 15 percent).

Hungary's exports to the United States, meanwhile, consisted largely of food products, materials and spare parts and agricultural and food processing equipment, Fogarasi said, with each category accounting for some 30 percent of total exports to the United States.

Within the materials and spare parts category, Hungary exported mainly telecommunications and mining (ore processing) equipment, as well as transportation equipment and chemical/pharmaceutical commodities. Textiles and apparel comprised a small segment of exports, she said. □

Economic Trends

ECONOMY POSTED MIXED RESULTS LAST YEAR, U.S. AMBASSADOR SAYS

BUDAPEST—U.S. Ambassador Charles Thomas summed up 1992 as a "good news, bad news year" for Hungary's economy.

Hungary experienced its third year of recession last year, with the gross domestic product (GDP) declining by between 7 percent and 9 percent, Thomas told a Jan. 26 business conference.

Unemployment is more than 11 percent and still growing. Of the unemployed, 60 percent are young people, many first-time job seekers.

Industrial production, said Thomas, fell 21.5 percent last year and "perhaps one-third of all state-owned enterprises are insolvent." Finally Hungary continues to have the highest per capita foreign debt in Europe, totaling more than \$22 billion.

The good news, according to Thomas, was that Hungary attracted \$1.5 billion in direct foreign investment, "which is more than half the amount invested in the entire region."

In addition, the country has "successfully reoriented trade from East to West," Thomas said. "Three-fourths of Hungary's trade now is with the West, giving it a \$704 million current account surplus."

Inflation fell from 35 percent in 1991 to 22 percent at the end of 1992, the ambassador noted.

The private sector has grown substantially. Today, there are 63,000 private firms and 600,000 individual entrepreneurs operating in Hungary. Two years ago, said Thomas, 18 percent of the GDP was generated by the private sector. Today, it is more than 35 percent.

"The challenge facing Hungary," said Thomas, "is to adopt programs and policies which will allow the private sector to grow and prosper so that it will provide the jobs, exports and the tax base to sustain Hungary through the economic transformation and beyond." □



INTERNATIONAL

The Hungarian Franchise Experience

Carol Tiegs, European Correspondent

BUDAPEST, Hungary — Peter Freed, president of Duna Elektronika, master franchisee for MicroAge Computers, has first hand experience in how franchising can work in Hungary's privatization process. He spoke at the May 7-8 franchise conference in Budapest attended by CFR.

Budapest-born, Freed was a U.S. franchisee of four MicroAge units which he sold for the opportunity to do business in his native country. He is also responsible for MicroAge franchise expansion in Poland and Czechoslovakia.

Freed met his primary joint venture partners at the first Hungarian franchise conference, held two years ago in Budapest. Both were state-owned firms being privatized, bringing with them an existing chain of 22 shops located in each county seat. Shops were redesigned, and staff retrained to MicroAge standards. Partial funding was obtained through the Hungarian-American Lending Agency.

"A disadvantage with a state-owned company," says Freed, "is that the people are not used to a local entrepreneurial management concept, but to centralized control."

Freed's organization is providing continuing training to help overcome this problem. Duna broke even in its first year of operation (a loss had been planned), and is profitable in 1992. Additional franchises are being offered and plans call for a total of 40 shops by the end of the year.

"Computer demand here seems larger than we originally projected, especially as the economy continues to grow," said Freed. "And people are willing to pay for a quality product. They are especially interested in quality."

George Hemingway, president of Hemingway Holdings, master licensee for Dunkin' Donuts, Kentucky Fried Chicken and Pizza Hut, is in his fourth year in Hungary. He has one Pizza Hut unit open in Budapest, and both a Dunkin' Donuts and KFC location set to open in September. He remarks that it costs more to have a unit in the city, but it's much safer as a business venture.

Hemingway is bullish on franchise opportunities in Hungary, but warns of "quacks and charlatans flocking to Eastern Europe to offer their franchise expertise."

A good reminder in any country, he urges a careful analysis of the credentials of any potential advisor.

"From 1993 on, I estimate scores of new franchise units in Hungary," Hemingway continues. "Franchising here is not theoretical anymore. We will include Hungarian entrepreneurs in all our systems here and plan to provide financing assistance."

Specifically, Hemingway calls Hungary "the one country in Eastern Europe with social stability plus a stable government and a stable opposition party that believes economy and democracy go hand in hand. It's the only place here where investment as we know it and on a scale we require makes sense."

Hemingway stands by a previously published statement that, "Most of Eastern Europe will not be standing on its feet in 10 years to come."

Freed shares Hemingway's feelings on Hungarian stability.

"The Hungarians have entrepreneurial skills learned in a thriving black market."

HUNGARY

U.S. AID Funds Franchise Project

by Philip F. Zedman, Esq.

(Editor's Note: Philip Zedman is a partner of the Washington law firm of Brownstein Zedman and Lore, heads its franchising practice, and is General Counsel to the International Franchise Association. He is a founding principal of EastEuropeLaw, Ltd., with offices in Budapest. This is the first of a series of articles on franchising in East/Central Europe.)

On September 1, U.S. AID awarded a grant to Deloitte & Touche International and EastEuropeLaw, Ltd. to promote the development of franchising in Hungary. It is the first time an agency of the U.S. government has funded any franchise program; it is remarkable that the maiden effort occurs, not in the familiar surroundings of the United States, but in the newly emerging market of Central and Eastern Europe. The initial six-month effort (which may carry on at least through the first six months of 1993) will focus on franchising as a vehicle for entrepreneurial change and for privatization in the region.

EastEuropeLaw, Ltd. ("EEL") is a cooperative undertaking of independent lawyers and law firms from the United States and Great Britain. It assists Western franchisors and other businesses as well as local enterprises and governments throughout the region.

Why Franchising

AID has agreed to back the franchising project on the realization that franchising has some specific strengths that respond to critical needs in the new market economies of East/Central Europe and in other developing markets. The 50 years of U.S. experience in franchising has shown that this rather simple system of distribution is capable of:

- new business and employment generation;
- rapidly expanding a business or service concept with reduced risk for the franchisor and a greater chance of success for the franchisee;
- training for the mid-managerial level that has not existed in the economies of East/Central Europe for 40 years;
- delivering consumer goods and services of a consistent level of quality and price to consumers who have been denied any real choice in the market during previous years.

A burgeoning fascination with franchising was evident in Hungary quite early on, and today there is a nascent Hungarian Franchise Association actively working in Hungary to promote foreign investment and indigenous franchising. A second organization, the Franchise Institute, has just formed; one of its principals is the author of the first book on franchising ever published in Hungary. Hungary also has several associations of entrepreneurs, formed well before there was much entrepreneurialism on the scene. Both these associations can be excellent sources of contacts for those seeking to develop franchises or business associations in Hungary.

Project Goals

- The principle objectives of the franchising project are:
- to create a basic level of understanding of franchising in Hungary and its potential as a catalyst for new business generation;
 - to communicate to the U.S. franchising community information about opportunities in Hungary, and to interest specific franchisors in expansion into the Hungarian market;
 - to broaden the understanding by U.S. and Hungarian financial institutions of the potential in financing franchise investments in Hungary.

The first phase of this effort will focus almost entirely in Hungary. The project then will broaden its emphasis in part to U.S. franchisors and the multitude of opportunities for bringing this information to them. The outreach to financial institutions will be a parallel effort in both countries.

Implementation

What are the building blocks of this unusual structure? To a significant degree, they will be based upon experiences in bringing the concept of franchising to other countries but they will also draw from the early experiences in the region itself. In the last two years the concept of franchising—as a technique for expansion of local companies, as a method for the introduction of Western goods and services into the region, and as a vehicle for the privatization of state-owned enterprises—has been introduced at conferences in Budapest, Prague, Warsaw and elsewhere. These conferences have been sponsored by groups ranging from the International Bar Association to the antimonopoly agencies of the affected countries to the Organization for Economic Cooperation and Development. EEL has been asked to participate in all of these programs, and we have become convinced that, while they are no substitutes for one-on-one discussions with countries within and outside the region, they remain an essential tool for communication.

As a consequence of that experience, the AID project will include presentations at meetings, conferences and workshops in Budapest and other Hungarian cities ("franchising on the road"), the compilation of Hungarian market data for U.S. franchisors and ultimately the identification of both U.S. companies and prospective Hungarian franchisees. The Hungarian companies will be those undergoing privatization at their own initiative or under the aegis of the State Property Agency. A final and critical element will be a presentation before Western franchisors in the U.S., and perhaps elsewhere in the West.

Franchising and Privatization

AID and others in the future may also consider the potential franchising offers to the privatization process. Governments in East/Central Europe, like dozens of governments worldwide, are, of course, considering or implementing privatization initiatives to reduce the cost of certain government functions and improve the efficiency of basic services in those countries. Franchising can be utilized as a vehicle for the privatization process, which is a topic we will report on further in coming months.

FRANCHISES CALLED GOOD APPROACH TO ENTERING EASTERN EUROPEAN MARKETS

Franchising is uniquely suited to starting businesses in the emerging economies of Eastern Europe, a U.S. lawyer with experience in franchising in Hungary, the Czech and Slovak Federal Republic, and Poland said March 16.

Consumers in those countries are particularly eager for the types of new goods and services franchises are good at delivering, said Philip F. Zeidman, a partner in the Washington, D.C., law firm of Brownstein Zeidman and Lore and in EastEurope-Law Ltd., an association of independent law firms and attorneys interested in Eastern Europe.

In addition, the countries of Eastern Europe have a long tradition of small business that was held back under communist economic management, Zeidman told a meeting sponsored by the trade and business committee of the American Czechoslovak Society.

Franchises provide a way for companies to tap the energy of individual business entrepreneurs, while retaining some degree of control over them, Zeidman said. Franchises sell fast food, clothing, and services such as photocopying or picture processing, he said. There are also hotel chains and industrial franchises, such as soft drink bottlers, car manufacturers, and oil companies, he added.

MicroAge Experience In Hungary

A Washington, D.C., franchise of MicroAge, an Arizona-based computer company, set up franchise retail outlets in Hungary, a representative of the company said at the ACS meeting. Through a joint-venture arrangement, a Hungarian partner brought locations and personnel to the deal, the U.S. businessman said. The approximately 220 locations were granted franchises for distribution of computer equipment, he said.

The arrangement has worked from the distribution standpoint, the businessman said, but sales have been slow, and have been chiefly to U.S. clients who do business in Eastern Europe. Consequently, outlets in smaller cities have not done as well as those in major towns, he said.

Training of employees was substantially different in Hungary than in countries where free market business practices are established, the businessman said. Instead of the usual two-week orientation, MicroAge found it needed constant training, "a continuing process of reinforcing corporate goals, a lot of hand-holding," the businessman said.

Zeidman cautioned that companies that already have overseas experience with franchising are better suited for success in Eastern Europe. "You need to know if your product travels well and that you have the capability of supporting it," he said.

Zeidman and two colleagues provide a more thorough discussion of franchising in Eastern Europe in an article prepared for *BNA's Eastern Europe Reporter* (1 EER 190, 12/9/91). □

Franchising Goes Global



PHILIP ZEIDMAN
Partner
Brownstein, Zeidman,
Schomer

An attorney based in Washington, Philip Zeidman has over 20 years of experience dealing with international franchising. His firm is involved in European developments and was instrumental in setting up a project with the goal of developing legal and commercial business in Eastern and Central Europe.

Franchising is one of the world's fastest growing and most lucrative industries. Franchise businesses will be turning over an estimated \$1 trillion in sales by decade's end. And the industry is set to take on the global market place. WORLD LINK looks into the wonders of this remarkable business formula and gauges its potential for the international economy

In 1955, the United States had two hamburger operations, one which was called McDonalds and the other White Castle. The latter was by far the better known. Between 1955 and 1985, White Castle grew through its own internal resources from 27 outlets to 167. McDonalds, which chose the franchise route, went from 1 unit to 8,278 units and became one of the most spectacular business successes in modern times.

Of course, this is an extreme example, and a broad range of factors contributed to the success of McDonalds. But it illustrates the undeniable fact that franchising permits businesses to grow much more rapidly than any other method. By increasing the efficiency with which goods and services are distributed, it brings impressive gains to any economy. But the significance of franchising goes well beyond economics.

On a cultural level, franchising is one of the few developments that generates employment, earnings and entrepreneurship at the same time. It disseminates ownership rights and decision-making power to thousands of small-unit operators. This means that franchising is not only efficient, it has an enormous political significance in market economies. For developing countries or countries shifting to a market economy, franchising has the effect of creating relationships between one economy and another. It promotes the sharing of technologies, trademarks, marketing, intellectual property and even architectural design. It deepens cooperation by building on the investment of hundreds or even thousands of people, each of whom must generate his own profits.

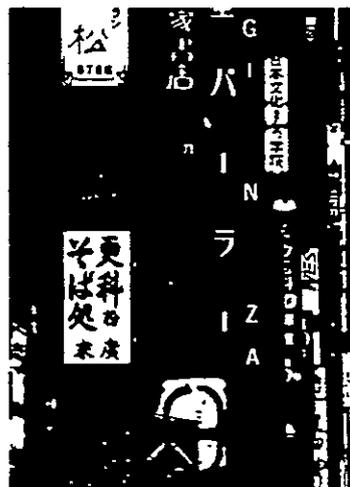
Not surprisingly, awareness of the benefits of this business formula is growing at the international level. Companies like Holiday Inn, Burger King and Dunkin Donuts were targeted for the sort of large scale acquisitions at price levels once

reserved for industrial giants. Franchising is well on its way to becoming a significant financial instrument in developed countries

In the emergence of a market economy there is an obvious link between privatization and the techniques of entrepreneurship. All across Eastern and Central Europe there is a growing interest in franchising. In Hungary, there is a government development fund with monies earmarked specifically for franchising businesses. The Hungarian-American Enterprise Fund was established by the US Congress to promote private initiative, and the first investment that fund made was in a franchise business called Donasphere, which has the rights to operate a retail computer business in Poland, Hungary and Czechoslovakia. Franchising is currently a formula almost tailor-made to the needs of these countries.

It is also a particularly good development tool in any part of the world where financial resources are short and the need to stimulate individual initiative is acute. Latin America, where franchising is making inroads, is a case in point. Mexico is the most advanced here, both for encouraging foreign franchises and developing its own indigenous operations. It seems no coincidence that Mexico also has one of the fastest growing economies in Latin America.

Franchising does have significant export potential. The initial cost of international franchising is high, but the formula lends itself ideally to export. For a service or "uniform business format" franchise, setting up in a foreign market involves few shipping costs or customs problems. There are no tariff barriers to be dealt with. It puts little strain on the receiving country's balance of payments. In decades past, franchising has been proven the ideal way to make a business grow and in this decade - as the economy becomes increasingly global - it should generate similar results on an international scale ■



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Franchising in Eastern Europe McGoulash to go

BUDAPEST

THREE years after its opening, the McDonald's restaurant just off Váci Utca, Budapest's main shopping street, is still packed with customers. Pleased at the success of its flagship and of the profitability of its three other company-owned outlets around the city, McDonald's decided to look for franchise partners to open more. To its surprise, hundreds replied to the advertisement: many with enough capital to pay the licence fee of 4.3m forints (\$57,000). Since then, one McDonald's franchise has opened in a Budapest suburb. There could be a dozen more by the end of 1992.

McDonald's is not alone in discovering that franchising may be not only the least risky but also the most popular way of investing in Hungary. When Fast Food Systems International advertised franchise licences for its Dixie Fried Chicken restaurants, it got the same overwhelming response. Other firms that have completed contracts, or want to, include Burger King, Pizza Hut, Budget, Avis, Landauer (an Austrian bakery chain), three clothes chains (Kleider Bauer, Yves Rocher and Benetton), Manpower (a temping agency) and hotel chains like Intercontinental and Novotel.

Throughout post-communist Europe,



Feeding the Hungary

franchising has special advantages for foreign companies. For many, it is the only way to side-step the run-down, state-controlled distribution systems, which have no incentive to deliver products on time, if at all. With its own network and its own shops, a company can be sure that its products actually get on to shelves.

There are other advantages. Franchise owners who have learnt western sales and service practices from their partners will

have an edge over local rivals. Quality and price can be controlled more effectively. And, as it does everywhere, franchising lowers the investment risk in tricky markets. Whereas joint ventures can involve large capital investments and impenetrable legal complications, franchising brings sales—and brand recognition—at a far lower cost.

Franchising will also help western firms tap into what is going to be a surplus of private shop-owners with a dearth of experience. Hungary plans to privatise 10,000 state shops within the next few years. Poland and Czechoslovakia have similar plans. Yet not all of the entrepreneurs who get hold of them will be ready for complete independence. Buying into a franchise means help with shop design, assured supplies and services, easier access to bank loans (almost impossible to get otherwise, since East European banks are subject to tight monetary controls) and advertising.

Mr Endre Fazekas of McDonald's in Budapest thinks that owning a franchise is the perfect psychological solution for the new breed of East European businessmen who want to own shops but are fearful of losing their savings in a shifting economy. "They know that McDonald's will give them a certain security, and that the company is not interested in having a franchise partner who is in trouble."

A few East European firms are also trying out the system. Intellobot, a private Hungarian company that imports computers and electronics from Taiwan, wants to set up its own chain of shops to distinguish itself from its many rivals, to provide service as well as hardware, and to defeat distribution problems. Hoping to have as many as eight franchise shops by the end of the year, Intellobot tried running an advertisement and, like McDonald's, got over 300 replies, mostly from owners of private shops.

There are still problems to be worked out. Hungary has no franchise law and, though this poses no real obstacles to a franchise arrangement, it does mean that contracts can be tough to hammer out—and that future changes in the law may require firms to alter them. But the biggest hurdle may be a more basic one: in Hungarian there is no word for "franchise".

MAGYAR
FRANCHISE
SZÖVETSÉG



HUNGARIAN
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Introduction

The Hungarian Franchise Association is a newly established society formed in May, 1991 by a number of Hungarian organizations dealing with different aspects of franchising. The aims of the HFA include

- establishing and supporting the franchise type of business itself in Hungary,
- facilitating its acceptance as a sound business opportunity,
- helping companies and individuals in finding appropriate franchise partners,
- introducing the European Code of Ethics for Franchising.

The HFA organizes *seminars* devoted to different facets of the franchise method analysing specific problems due to the transition of the Hungarian economy like legal adjustment, joint ventures and franchising, the role of franchising in the Hungarian privatization etc. *conferences* and *exhibitions*

The Association's objectives also include publishing introductory information on franchising to help those interested to get acquainted and acting on behalf of this emerging community in relation to governmental departments when and where related legislation is formulated or needed.

Officers of the Association:

President: Mr. Endre Fazekas, McDonald's Hungary Ltd

VPs: Ms. Mária Udvardi, Kereskedelmi Bank plc
Mr. Mihály Haraszti, TRADEMARK Franchise & Marketing Cons

Members: Mr. László Forczek, FORDAN Ltd
Dr. (Mrs.) Ágnes Király-Vegi, C.E.C.C.
Dr. (Mrs.) Gabriella Szemere, Dixie Chicken Ltd
Mr. Endre Virágh, Építőgép plc

Ethical Committee: Dr. Károly Egri, Attorney

Supervisory Committee: Mr. András Hirschler, Investcenter

Secretary General (CEO): Dr. István Kiss

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FRANCHISE THE PRIVATIZATION TECHNIQUE

based on a study entitled *Franchise as a Privatization Technique*
prepared by the Hungarian Franchise Association

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State Property Agency

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Franchise and privatization in Hungary

Franchise might become a new entrepreneurial form of privatization in Hungary. This was one theme in the conference "The Franchise in Hungary" recently held by EastEuropelaw and the National Savings Bank in Budapest recently.

Foreign and Hungarian contributors of the event have lectured on the basic principle and economic importance of franchise, have presented the application opportunities of the method in privatizing state companies and services, and have also discussed financing issues.

EastEuropelaw Ltd. was established by American and British lawyers and lawyers' offices. Their goal was to spread franchise as an entrepreneurial form and a privatization tool throughout Central and Eastern Europe. USAID, the international development office of the United States, provides financial support for their program. EastEuropelaw Budapest Ltd. tries to expand the knowledge of Hungarian state and entrepreneurial organizations on franchise by organizing lectures and conferences. In addition, they supply Americans transferring franchise with Hungarian market information.

According to Philip Zeidman, co-founder of EastEuropelaw, franchise as a privatization method can be successfully applied to those companies whose structure and management is similar to those usual in franchise systems. Good examples are trading companies, big department stores, hotels and tourism services with national and regional chains. In privatization by franchise, there is no need for a single big investor to buy the whole chain; individual units may have separate owners. The central organization can be the recipient of the

franchise which, after that, transfers the method to the units of the chain. The taking over of tested know-how ensures the efficient functioning of an enterprise, and this matches the genuine goals of the change of ownership.

Franchise may also promote the development of domestic small enterprises. International experiences indicate that the adoption of the method considerably improves the odds of a new enterprise's survival. It provides ownership acquisition opportunities to small investors, and drawing on the population's money also makes it easier to finance privatization. Finally, it ensures that domestic property remains in domestic ownership.

A number of Western franchisers are present in Hungary. Franchisers settling here generally run their enterprise in partnership with a local company.

The Hyatt International hotel chain opened the Budapest Atrium Hyatt Hotel in 1982. Hotel Novotel Budapest is a member of the French Accor hotel and catering company group.

Among fast-food chains well-established in franchise enterprising, McDonald's was the first to appear on the Hungarian market. The American company established a joint venture with the Bábolna Agricultural Combine, with each side holding 50 percent. McDonald's restaurants have quickly spread throughout both the capital and countryside.

Pizza Hut, Kentucky Fried Chicken and Dunkin' Donuts restaurants and shops are run by the Central European Franchise Group, with exclusive franchise rights in Hungary. Burger King and Dairy Queen have also opened their first shops in Hungary.

The MicroAge international computer technology and software company authorized Duna-Elektronika, a Hungarian-American joint venture, with exclusive franchise rights and operates 20 shops in the country.

Franchise chains are also operating in the field of services, such as the Mister Minit shoe repair quick service.

Franchise, the privatization technique

The study abridged here has been prepared by a working group of the Hungarian Franchise Association for the PRI-MAN Company.

THE PRINCIPLE AND GENERAL ASPECTS OF FRANCHISE

A franchise-type enterprise is an activity in which the franchiser sells together with the use of brand name and full-scale training a complex system thoroughly formulated in every professional and commercial respect and successfully tested in market economic circumstances to the franchisee who, for paying a licence fee, runs it for his own benefit as an independent enterprise, on an agreed field and for a set time individually, but on the basis of prescriptions and constant assistance of the franchiser.

The essence of the franchise form is that the framework and content of the enterprise can be simply multiplied and run, the

entrepreneur is independent but he is still not alone. In view of the state of the Hungarian enterprising culture and the lack of necessary knowledge, it is no exaggeration that franchise might become one of the most ideal tools for dynamically snatching up and developing the Hungarian private sphere.

SOME TIMELY HUNGARIAN ASPECTS OF FRANCHISE

In the Hungarian situation, it is important that the following features exist:

- a franchise system has proven its successful operation amid market circumstances,
- the franchisee receives not only a full (professional management, marketing, financial, etc.) system, but is also trained professionally and for the management of the enterprise
- his enterprise, to be financed himself, is legally and fiscally independent.

- his activity is limited in time and scope.
- he does his job according to instructions and not based on his own ideas;
- although a considerable part of the profit is the franchisee's, he has to pay various fees for the usage of the system

A franchise-type enterprise satisfies those basic governmental priorities which are crucial among Hungary's long-term economic and social goals. The following are listed in this category:

- assisting private enterprises.
- in the framework of privatization, transforming state companies and dividing them into independent units in the field of small trade, services and tourism;
- creating jobs to fight unemployment and promoting individual existence on a personal or family basis;
- developing underdeveloped regions and increasing their economic and business potentials.
- naturalizing modern management knowledge and techniques.
- drawing in foreign capital.
- attracting and drawing in private capital and savings in business life to an increasing extent;
- forcing the production of high-standard products to increase export potential.
- utilizing foreign credit opportunities and eventual aid on an operative business basis, in accord with the main considerations of the creditor

In general, it can be established that franchising, in perspective is able to create a system

- which is interconnected
- representing a strong economic and business potential
- realizing modern management knowledges and techniques
- utilizing foreign and domestic private capital
- having the potential to create jobs
- creating an individual existence for the enterprising population and
- providing an attractive alternative.

which may help considerably in solving the solution of the country's economic problems

It should be emphasized that a government is not only interested in supporting private enterprises in general, but in doing so to create successful enterprises. This is not only important for efficiently utilizing scarce financial resources, since enterprises going bankrupt one after the other in the near future (witness the 75 percent bankruptcy rate within five years of independent enterprises in the Western countries!) would result not only in the low-efficiency utilization of financial opportunities, but would discredit the enterprise itself and would result in a negative foreign evaluation of Hungary. From this point of view, the very high success rate of franchising deserves special attention.

The main emphasis of foreign assistance will continue to be directed at putting us in action and promoting our individual initiatives

In view of this, attention should be paid to the following elements of franchise

- the promotion of capital flow in case of proper reception,
- the promotion of naturalizing modern management techniques, methods and knowledges,
- education and professional training;
- assistance to private enterprises

FRANCHISE AND PRIVATIZATION

In Hungary, franchise may have an extraordinary role in transforming state companies to be privatized

For Hungarian companies used to functioning amid command-economy circumstances franchise is specially suitable for renewing their organization and their applied methods. This is a special historic feature of franchise in Hungary today. Hungary companies cannot avoid transition to market economy methods.

With a market economy forming and competition appearing, the success of individual companies will also depend on the efficiency of applying market methods, including efforts to achieve an evenly high standard, and resourcefully and efficiently satisfying customers based on their demands. It is extremely difficult, in fact, almost impossible to realize these goals at a company where these principles were ignored for decades, since the habits of many years and the absence of business-centered thinking cannot be eliminated in a short period

However, the purchase, for example, of the master licence of a foreign franchise system considerably eases the situation, since the force with which the system is applied does not provide a diversion from the road successfully taken elsewhere. A franchise system, through an almost scientific analysis of the consumers' demand, contains

- the composition of products/services adapted to demands
- successfully tested and efficient methods which make the quick and cultured supply of products/services adapted to real-life conditions possible
- the criteria to select location
- the internal and external view of the premise: the shaping of furniture and functionality
- the criteria to select the manager of the unit with such a "built-in" self-motivation, which is able to guarantee a constant intellectual and physical commitment,
- efficient advertising methods
- a clear financial record-keeping system providing, in many cases, financial advantages,
- a name which can accelerate the acceptance of the products/services of the chain;
- training to apply, on a high standard, the existing methods,
- continuous assistance in solving market problems emerging during operation

Of course, it would be a mistake to suppose that the purchase of a system guaranteed success. Its efficient application however might solve numerous problems of a company. Opportunities open up to:

- efficiently apply turn-key market methods;
- raise the intellectual standard of the company and form the quality of corporate culture,
- rationalize hierarchy,
- fully change the product range,
- basically transform, along with privatization, the already functioning shops,
- change the qualitative composition of employees,
- invest financial assets more efficiently than before;
- develop technology and continuously share the results of the innovation process,
- join a chain, eventually comprising several countries which

might extend an international relationship system and, in many cases, additional export (supply) opportunities.

This method might be a way out of one of the principal catches of privatization: *the majority of Hungarian companies handle privatization not as a tool, but a goal in creating conditions for a more efficient functioning*. The shortcoming of this principle is that it supposes that a "new world" will arise through the appearance of new methods.

However, a rationally thinking businessman cannot be expected to tolerate several months of helplessness and a complete lack of initiatives and business policy. Experiences so far prove that the tough part is still to come after privatization, dismissals, economizing, product and activity streamlining will start without mercy. How much easier is the situation of a company if it has ready principles, if its managers know exactly what the market demands and if they prove their abilities to satisfy demands.

FRANCHISE AS A TOOL OF PRIVATIZATION

– An example from the practice of Zarex –

Zarex Hungary has worked out the so-called "Double Privatization" method, the essence of which is the following:

- As a first step the privatization method includes the purchase of the state-owned company (together with its chain) and then its transformation into a franchiser. (This tool is successfully applicable mostly among commercial or servicing companies.)

- As a first step of the method a further privatization occurs with the realization of the franchise system during which this step is realized either by developing the franchise system or by the so-called franchise conversion. In this framework the chain is sold to entrepreneurs who will run the units as franchisees.

The double privatization method ensures the following advantages:

- a genuine privatization occurs, that is, the company's units go to the ownership of entrepreneurs,

- units which have gone to the ownership of entrepreneurs and the franchiser are equals, thus ensuring that market relations prevail;

- the franchiser can assist the units run by entrepreneurs in many ways, thus entrepreneurs can operate their units more safely,

- it may ensure or free a considerable surplus capital if the system functions successfully;

- it can be financed on various levels (either the franchiser or the franchisee) from foreign or domestic resources;

- it ensures that the property remain in the ownership of Hungarian entrepreneurs.

Double privatization worked out by Zarex Hungary can provide assistance in the Hungarian privatization practice in two ways.

In both cases, the advantageous characteristics of franchise can be used to help privatization:

a) One is when a company does not have its own chain, but has an activity which is suitable for franchising. In this case, one of franchise's characteristics can be utilized: a surplus profit resulting from a dynamic increase, which can be spent on financing privatization.

b) The other is when a company has its own chain, and the so-called franchise conversion can be realized. This solution can be considered a regrouping of franchising capital. In this strat-

egy, the company sells its business property. However instead of selling the property to outsiders (e.g. foreigners), it is purchased by employees or Hungarian entrepreneurs.

The property is sold to those who agree that the business be run under the franchiser's existing brand name and business methods.

In such a case the company can regain its invested capital (or more), and maintains its control over the capital through the franchise system.

The so-called double-privatization tool utilizes franchising to realize the sale of state-owned commercial and servicing property to entrepreneurs.

During the practical application of the double-privatization method, Zarex Hungary also presses for the application of other privatization techniques. Depending on the concrete case Management Buy-out (MBO), Management Buy-in (MBI) and Vendor Take Back solutions can also be applied. Among them, MBO and MBI should be emphasized.

According to our experiences, to successfully realize double privatization an expert and financially committed management is indispensable. For this, as a first step of double privatization it is expedient to utilize an MBO, since the chances of success are much better this way.

FINANCING FRANCHISE

A cornerstone of Hungarian privatization and thus in the establishment of franchise systems as well is financing. In countries with a developed market economy, a number of financing systems help franchise spread. Franchise systems can be financed on various levels, and these together can result in entrepreneurs launching their enterprises with a smaller own resource.

Financing opportunities of franchise are the following:

- financing the franchiser – by credit and capital,

- financing the franchisee – mostly by credit, but eventually by capital,

- ensuring various guarantees for both.

The complex application of these, such as in Canada, makes it possible for entrepreneurs joining some franchise systems to launch their enterprise with a 10 percent own resource. This opportunity would be useful in Hungary, all the more so since in the current situation of transformation, entrepreneurs are more financially vulnerable than usual.

This was recognized by Zarex Hungary when it started to establish the Hungarian Franchise Privatization Fund. This investment fund organized on a Western model (in addition to which the European Bank for Reconstruction and Development wants to bring about a parallel fund) will assist financing franchise systems established on the basis of the double Privatization method and within that, those where MBO or MBI have been applied.

Approaching the end of organizing the fund, privatization is unquestionably successful on a franchise basis. Franchise can establish a refunding efficiency which is difficult to ensure by other means.

A CASE STUDY IN UTILIZING FRANCHISE AS A PRIVATIZATION TOOL

The Tisza Élelmiszer és Vegyiáru Kereskedelmi Vállalat (Tisza-Fuzérn, the Tisza Food and Chemicals Trading Company)

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is a food wholesale company established in the old system. Amid the new economic relations, it had increasing difficulties existing in this form. Recognizing this, the company's management decided to transform and privatize the company. They planned to implement privatization in three steps:

- *First step:* the company's transformation.
- *Second step:* the privatization of the company's units (e.g. storehouses)
- *Third step:* the public issue of the company's shares.

Simultaneously with the second step of privatization, however, they planned to realize steps which considerably increase the company's value and the efficiency of its operation. A basic element of this is integration with small trade, which the company has started.

It has become clear that the wholesale activity itself cannot be run efficiently. Of course, the company did not have enough capital to establish a small trade chain. For this reason, they decided to create the necessary trading activity around the wholesale line by franchise. The company planned to establish various franchise systems, some of which are on their way to being accomplished. These franchise systems are the following:

1. Joker Market franchise system, which is basically a wholesale franchise system. The franchise system was planned last year, and realization and the establishment of the system is currently going on. The company has concluded a preliminary agreement with 110 small traders. Their testing is underway. Those who meet the requirements can be members of the Joker Market system.
2. The working out of an ABC department store franchise system has started recently. It makes it possible for medium-category ABC department stores of 300 to 600 sq. m. to join Tisza-Fuszért. Tisza-Fuszért has the type of shop, and it will be the sample shop in working out the franchise system.
3. Tisza-Fuszért plans to join an existing franchise system worked out for food shops with a small area. It would be a franchise system of 100 sq. m. shops.
4. In the past two years, Tisza-Fuszért has started to establish discount department stores. At present, seven such units are operating, and the opening of three to five are being prepared. This type of shop is also suitable for franchising.

Tisza-Fuszért, during its own privatization, is trying to utilize franchise in order to create a small trading activity in addition to wholesale, which considerably improves the efficiency of operation.

If these systems are run well, small trade revenues will considerably increase.

Franchise systems will make it possible for the company to considerably expand the operation area which, at present, is limited to two counties.

The company will be able to spend a part of its profit earned by the dynamic increase of the franchise system to modernize the company.

The franchise system will force the company to adapt flexibly and quickly to market relations.

(In the initial period of the privatization of Tisza-Fuszért, Zarex Hungary acted as a franchise consultant.)

DECISION ON FRANCHISE DURING PRIVATIZATION

For some state companies during or prior to privatization franchise is mentioned as a version of transformation. The franchise enterprising and marketing method is not the sole and solely redeeming method in the countries involved. This procedure cannot even be realized and applied in every economic unit. In a classical sense, those companies which provide some services or have a national or regional chain can be taken into account. Fuszert companies conducting wholesale activities and having small trade shop chains, Áfész companies, Tuzép companies specialized in fuel and building materials or service companies such as Patyolat (laundries) and Fővárosi Takarító Vállalat (cleaning) are good examples.

International experiences, however, indicate that the field of operation of franchise-system companies is even wider. In general, it is worth thinking of franchise for those companies whose activity, partly or fully, can be comprised in a system. It is also important to analyze whether the market is able to bear a new chain in its field of activity.

To answer the first basic question is possible following a thorough preparatory survey prior to decision-making. It should spread over the current market position of the economic unit and principles formulating the goals to be achieved by applying franchise. Furthermore, a part of this study is the evaluation of the economic unit's market environment and the analysis of how the future development plans of the company harmonize with the expected motion of the market. This preparatory part very important in view of the future of the economy unit, is a result of teamwork. There is a need for external specialists expert in franchise, but no reliable material can be prepared without the experience and knowledge of the company's top and/or medium-level management.

ANALYZING DECISION SITUATIONS

The company's management or the organization responsible for the company's privatization (consultant) should make a number of decisions even prior to the transformation period preceding privatization.

Among the decision strategy versions, franchise, as an enterprise-business-marketing tool (if the company is otherwise suitable for franchise) is one of the strategies.

Franchise, as an alternative privatization procedure can emerge in two phases:

- prior to privatization or
- after privatization.

If the company management selects franchise, most of the questions can be answered by thoroughly examining the old, pre-transformation structure and operation. Necessarily, the old organizational frameworks are replaced by an organization supporting up-to-date operation. Their smooth transformation can be tried, but a number of experiences indicate that each transformation entails small or big sacrifices. In the new organization independent even from franchise, new functional units are brought about, and old ones, unsuitable for the new frameworks disintegrate. During transformation, decisions should be made to terminate organizational units or establish new ones.

Is an old organization suitable for realizing a franchise transformation? Is the old management in the position to make fran-

chise-type transformation-related decisions excluding external effects?

If they decide in favor of a franchise, it should be clarified whether franchise elements should be built into the new company structure in the initial phase of transformation or at the final phase of privatization.

In the case of commercial franchise systems, the central management is transformed, and the wholesale and small trade functions are partly merged. The importance of the marketing organization changes. At the same time, an organizational unit dealing with assisting and training the franchisees should be established. A close daily connection between the franchiser and the franchisee will be maintained throughout the whole contract period.

Franchisees of commercial and servicing character may have the chain units forming the subject of privatization prior to transformation, but there will be franchisees who would like to establish and organize their chain during transformation. When establishing a chain, however, the latter should expect to find themselves in front of entrepreneurs and not shop assistants. Or, the opportunity should be provided in the case of good franchise systems for the franchiser to take over complex chain systems. Decisions in this respect are shifted towards financing questions. Is a company raised on old corporate habits suitable for accepting and managing the new chain structure? Perhaps these questions can only be answered if the new company management is ready to start.

It is clear that whichever phase of transformation is considered the start of the franchise, the organization running franchise should first be established, and the privatization schedule of the chain units should be set.

Compared to old structures (e.g. contracted shops) commercial or servicing franchise runs the chain's units in a closer contractual form. At the same time, the relation between the shop chain managers and the center receives a new quality: their relationship is not subordination but equality.

For non-commercial franchise systems, the organizational change-generating effects of transformation are also valid.

In making decisions, the examination of the economic environment is not insignificant either. A number of franchises running abroad cannot be naturalized in Hungary because the franchiser is reluctant to accept the Hungarian economic environment, the taxation and legal background. Until these are brought to the level of industrially developed societies by proper legal rules and regulations, a number of unanswered questions remain in the field of franchising.

When taking over foreign systems, the suitability of the franchisee should also be examined in addition to the general Hungarian economic environment. A number of well-running franchise systems are unable to set foot in Hungary due to its obsolete technical means and outdated technology. In the framework of franchising, the franchiser provides some means for a rental fee to the franchisee, but does not expect, among others, the establishment of spaces influencing the operation of those means and the problem of their servicing. Storage and supply problems may question the very feasibility of the operation.

Franchisees should meet basic demands to run the system. These are basically changes in approach, that is, employee approach should be replaced with ownership approach.

In franchising, financial questions should also be answered. Not too often, franchise systems are self-financing, but franchising with the help of credit is more frequent.

In view of the Hungarian circumstances, this latter financing method should be first examined. A separate chapter deals with financing questions; here this question is examined only from the point of view of the franchisee. In the case of commercial franchise, the franchiser can extend commodity credit and payment allowances for the franchisee if he sees the short-term refunding of his investment. Of course, the questions of franchisee's suitability basically concern operation, but the expected profit of financial assets extended by the franchiser should not be ignored either.

To make a franchise system acceptable for banks interested in financing or would-be franchisees, a month-by-month feasibility table should prove to the franchiser that if he follows directions carefully, the business venture will show a long-term profit within a set period.

The franchisee also makes decisions on his own level. He has to acquire financial assets necessary to launch and run the enterprise, to be able to resettle it in a short period in proportion with the course of business. For this, he has to know the market of his business' field of operation. These should be tested and analyzed in an analytical examination form, beyond marketing.

Franchise is built on a long-term business policy. For this reason, during the course of business, franchisers and franchisees face a number of analyzing and evaluating tasks. Also during sales in course of business, decision-making situations may emerge involving the longer term. These effect franchise basically or, in the worst case, may terminate it. On the basis of examples of franchise systems functioning amid developed economic circumstances, it can be safely stated that bankruptcy procedures are fewer for franchise-type enterprises than for business ventures privatized by other means.

A basic question emerging in the course of privatization is whether a company should purchase or develop a franchise system. The following sub-chapter deals with this question.

A HUNGARIAN FRANCHISER OR THE MASTER FRANCHISEE OF A FOREIGN SYSTEM?

If preliminary analyses and evaluations are clearly positive, the question emerges whether to develop or purchase, that is, whether a company should be a Hungarian franchiser or the Hungarian distributor of a foreign system. This is the cornerstone of the transformation of the whole company. There are numerous pros and cons in both versions. A (by no means comprehensive) list of typical ones follows here, with the caveat that no general recipe exists. With each company, it should be examined separately which version is the best.

Pros to taking over a foreign franchise system

1. The point is the taking over of an existing system which has been tested in practice, approved by the market and having a market value.
2. In taking over a foreign system, government loans or other preferential loans can be drawn in a considerable part of the cases.
3. The taking over and spreading of a well-known foreign system serves as a model for Hungarian companies functioning

in a similar field and expanding its chain as to the Western standard and quality.

4. The Hungarian franchisee may eventually grab domestic supplier export opportunities.

Pros to working out (developing) a Hungarian franchise system

1. Hungarian franchise systems are established according to Hungarian consumer habits and traditions, in accordance with the valid accounting laws and legal practice.

2. Precious Hungarian knowledge, experience and system of relations can be utilized in the Hungarian franchise systems, indispensable in chain-type functioning.

3. Adapting to the Hungarian economic environment, Hungarian franchise systems can be worked out less expensively and introduced gradually

Franchise will become general in Hungary and take its place and fulfill a long-term function in economic life if, in addition to well-known and popular foreign systems, there will be successfully operating Hungarian franchise systems too, chains based on Hungarian market characteristics meeting the requirements of the franchise enterprise form and following its internal logic, and satisfying the requirements of the European Code of Ethics, which can amply prove that this marketing enterprise form, by adapting foreign systems not only takes a place in the economic public thinking, but is actively applied in the proper development phases of company structuring.

There is an opportunity, however, to realize a new idea in practice, to work out a franchise system for foreign goods and/or services in Hungary according to Hungarian circumstances and requirements. After its introduction and chain-type spread in Hungary, these systems are easier to adapt, in a second step, in the neighboring post-socialist countries than those coming from the market economy countries. There is an example for such kind of experiment.

The import of goods and services does not necessarily draw the continuous import of the product. With a properly established industrial, agricultural, packaging and servicing background, the franchise system in question can gradually rely on Hungarian suppliers. Thus franchise systems can act as drawing branches too. Meeting European-standard requirements, they can replace imports in a number of fields; moreover, Hungarian suppliers might become exporters of a product or service.

**SAVING CAPITAL IN THE LONG TERM –
INVESTMENT IN THE SHORT TERM**

Among the main advantages of the franchise enterprising form, saving capital is often emphasized. This is true, and every franchiser considers it. This, however, does not mean that the potential franchiser should not consider various (often big) investment when working out the franchise system of one or more own units. An earlier, well-functioning company consisting of several units should be transformed and reorganized so that it can run and control a whole chain, while its own units should smoothly function even in the period of transformation.

As a first step, the future franchiser should systemize in writing the elements of his successful venture. He has to do it

so that each unit of his company should be operated profitably on the basis of those put down. He has to prove with figures that the operation of the individual units is profitable. As a first step the entrepreneur who wants to join the system should examine how much time and what conditions it will take for his invested money to be earned back. The development phase of the system includes a handbook which discusses the minutest details of the course of business.

Furthermore, an organic part of the system is the accounting system, which is equally important for the entrepreneur as an aid and a control tool for the franchiser. The legal part is one of the foundations of the functioning franchise systems. Agreements concluded with the entrepreneurs regulate the rights and obligations of the franchiser and the entrepreneurs throughout the whole contract period. It is an important part of the legal work, but also important are the string of contracts and agreements which the franchiser concludes with sub-contractors and suppliers. Without them, the franchiser would be unable to run his chain and ensure smooth operation for each of his entrepreneurs, thus question, in practice, the whole chain-construction.

Every franchise system is measured twice: first, among those entrepreneurs who are considering launching their own enterprise or joining an existing chain, or considering which chain to join, second, among consumers when the chain is built up and spread.

Thus it is not enough to comprise a successful venture in a franchise system: necessary infrastructural conditions to continuously run each member of the chain should be created right at the beginning. It involves suppliers, but also supposes considerable organizational transformation within the mother company. An operative organization should be established which is in daily contact with entrepreneurs, and which analyzes and evaluates every motion of the market affecting the company's operation and market position. It is not enough to build up a chain, a market position according to the state and preparedness of the company should be achieved and maintained. Without hard work, up-to-date market knowledge and their realization in the company's operation, no company can last on the market or maintain and improve its position for long. The company's operation should mesh with market demands and requirements.

The working out of a franchise system involves considerable investment on the part of the company that cannot be shifted in the initial phase, to entrepreneurs joining the system. The compilation of a proper financial packet would be necessary to assume at least a part of these costs. It would consist of several parts, depending on the phase of the system's working out and how successful the company is on the market. A free of charge or interest-free loan supplied by a fund set aside for this purpose could be coupled with a preferential credit which would be extended by commercial banks interested in franchise.

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Major U.S. Franchisors To Meet with Hungarian Investors In Budapest, June 21

The largest group of American franchising companies ever to come to Central Europe will be in Budapest June 21, to meet with prospective Hungarian franchisees who are interested in obtaining the rights to bring American goods, services and franchising concepts to Hungary.

The day-long meeting is the culmination of a nine-month project sponsored by the U.S. Agency for International Development and EastEuropeLaw, a Budapest-based firm which specializes in international franchising. The purpose of the project has been to introduce franchising into Hungary; and is based on the belief that franchising, with its record of success elsewhere in the world, is an equally attractive opportunity for Hungarians.

Previous meetings, co-sponsored by banks and other groups, have sought to identify Hungarian entrepreneurs, companies, and privatizing enterprises which are candidates to become franchisees or "master licensees". A number have already been identified; but, subject to limitations of time and space, it is still possible for additional interested companies to arrange to meet with one or more of the American franchisors.

They include:

Arby's...Premier U.S. franchisor featuring fast food-roast beef and various other specialty sandwiches...Currently franchising in Canada, Mexico, Bahamas, Holland, Hong Kong, China, Japan, Kuwait, UAE, Curacao, Philippines, Puerto Rico, Thailand, Turkey, United Kingdom, Brazil.

Baskin-Robbins...World's largest franchisor of ice cream and frozen yogurt...A pioneer franchisor, starting in 1948...3,400+ franchises, from Memphis to Moscow.

FastFrame...A new home services concept...Franchising since 1987...168 franchised units offers custom framing in a chain of retail stores...Looking to expand in Europe, Mexico, New Zealand.

Future Kids...Fast-growing computer education franchise...Grown to over 100 units in 10 years...Targets children 5-13 in its chain of private learning centers.

I Can't Believe It's Yogurt...A frozen yogurt business which has grown to over 400 franchise owned stores...You find the familiar initials "ICBY" the world over...Franchising worldwide.

Rainbow International...On-location carpet and furniture dyeing and cleaning...Founded in 1981 and has grown to over 2,000 franchises

worldwide...Master Licenses sold in France, England, Canada, Guatemala, Ireland, Singapore, Taiwan, and Australia...Franchises operating in all these and The Bahamas, UK, Virgin Islands.

Sir Speedy...A totally franchised chain of business printers...Highest system-wide sales in industry for four years...885 units...Expanding into South America, Europe and the Pacific Rim.

Subway Sandwiches & Salads...Franchising since 1974...For seven years the world's fastest growing franchise...Over 7,000 units across the U.S. and in 10 other countries.

Ziebart...Detailing, accessories and automotive protection services...Franchising since 1962...628 units...Interested in overseas expansion...Already in 42 countries.

Other franchising companies are also expected. Those interested in participating in the June 21 meeting should make immediate contact with:

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Each participant will receive "Franchising", the first Hungarian book ever published on the subject, and Hungarian language materials on franchising prepared especially for this event. There is no charge to the participants.

**SOME THOUGHTS ABOUT INTERNATIONAL FRANCHISING
FOR THE PROSPECTIVE INVESTOR OR
MASTER LICENSEE**

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Franchising: Some Key Questions & Answers

Q. What do we mean by "franchising"?

A. Franchising is a marketing system for the delivery or distribution of goods and services. Although international franchising, in particular, can entail complex arrangements (for example, area franchises, master franchises, joint ventures), franchising in essence involves a relationship between two persons (or entities): the franchisor and the franchisee. It is an alternative option to the two more traditional approaches for selling to the public (employer-employee, or sale-for-resale through purely independent parties).

Q. What's a useful example?

A. Consider one of the largest fast food franchises in the world. It does business in scores of countries. Look at it closely, however, and you see simply a repeated version of the original relationship: a headquarters company (the "franchisor") and thousands of operating units — each one of which is owned by a franchisee that has a direct relationship with the franchisor; or by an operator of several units, or by one of several "subfranchisees" of a "subfranchisor." The concept, though, remains a simple one.

Q. What elements distinguish a franchise from other forms of doing business?

A. Three elements characterize a franchise —

- the use by one person of the trademark or servicemark of another
- the provision of assistance, or the exercise of some control, or both
- the payment of money to the owner of the trademark by its user (usually in the form of royalties or other fees)

Q. Why franchise?

A. The benefit to the franchisor is the capacity to expand the business through the efforts and investment of a number of franchisees, typically much more rapidly than if the franchisor were required to rely entirely on his own financial and human resources. The benefit to the franchisee is that franchising greatly increases the likelihood of success, by associating the new business with the franchisor's proven

methods and by obtaining the continuing benefits of association with the franchisor — benefits that typically include the trademark and servicemark, design of the outlet, training and operations assistance, help with advertising, access to goods by volume purchasing, and other support.

Q Has franchising been successful?

A. Franchising has been described as “the most successful marketing concept ever created.”

Consider a handful of facts about U.S. franchising:

- Over 35% of all retail sales in the U.S. are franchise-related.
- Franchise sales in 1991 totaled \$758 billion.
- The success rate of franchising far exceeds that of the typical independent small business.
- Franchising employs over 7.2 million persons in 60 business sectors, ranging from “accounting” to “weight control.”
- Franchisee satisfaction is generally high, according to a recent Gallup Poll. Three-fourths of the survey participants said they would invest in the same franchise business again. Nearly half described their business as “very successful.”

Similar trends are being reported in a growing number of countries. And, as franchising becomes an increasingly international phenomenon, we can expect to see this experience repeated.

International Expansion

The Expansion of U.S. Franchising

This particular type of “international” franchising has a history of more than 20 years. Current data shows that nearly 400 U.S. franchisors are doing business in over 150 countries outside the United States. as the attached map shows, U.S. franchisors operate just over 35,000 international outlets. Canada remains the principal market for expansion, and today Japan runs a close second. But franchising over the last five years has also been introduced into some unexpected — once, even unimaginable — markets. For example, major chains and a growing number of mid-sized companies are doing business in such varied locales as

Brazil — Czechoslovakia — the former East Germany — Hungary — the People's Republic of China — Poland — Russia — Saudi Arabia....and many more unlikely locations, with the numbers growing steadily

Franchising in Other Countries

Today there are 20 national franchise associations, in addition to the International Franchise Association in Washington, D C., that work to encourage franchising in their home countries, network with other franchise associations and serve as a source of information and support for new and developing franchises. These probably include the franchise association in your own country. A growing number of non-U.S. franchisors are developing strong, viable systems...and some of them are beginning to venture beyond their own borders.

What Can We Expect From International Franchising?

Prospective franchisees are certain to ask whether franchising will succeed, or will change, in a new market. No investor, of course, can be sure that *any* new product or service will be successful when "transplanted" to another country. That is the first line of inquiry you should pursue.

If you conclude there *is* a market in your country for the particular product or service which is being franchised, there is an excellent likelihood that the franchise system of distribution will be effective. The relationship may change from that used in the home country, to accommodate the special features of dealing with one another across borders (for example, the franchisor may be most interested in a "master licensee" [sometimes called a "subfranchisor"] arrangement, in which the investor stands in place of the franchisor in a specified territory and chooses franchisees to operate units of the system in that area).

And, of course, there may be a need for changes to reflect the particular tastes and needs of your country. But the truly successful franchise system is one in which the *fundamental* elements, proven in the U.S. and perhaps in other countries, can be applied in the international marketplace with few significant modifications.

Is Master Franchising For You? Some Criteria to Consider

Are master licenses still available from the "major" franchise systems?

Are less well known or medium-size franchise companies nonetheless desirable prospective business partners?

The first step should be to choose more than one company in which you have some interest. It is unlikely that there is only a single, "perfect" match for you. And there is always the possibility that, during the Exposition, rights to one or more you are considering may already have been sold.

Gather as much information on each as you can, during the Exposition. If a franchisor is actively offering franchises, it will have a Uniform Franchise Offering Circular ("UFOC") available for those with whom it may wish to have serious discussions about franchises in the U.S. Even if it does not have plans to offer franchises in your country, or if there are differences between the nature of the franchise being offered in the U.S. and the arrangement which might be reached elsewhere, you will nevertheless find a wealth of invaluable information in the UFOC.

Even for those companies not actively offering franchises, you can still learn a great deal of valuable information. Perhaps most important is —

— What franchises, if any, already exist in your country?

— In what other countries, if any, is the company already franchising?

This information will arm you for inquiries you can...and should...pursue on your own.

If a serious discussion ensues, further material is available that you can and should review. This may include current annual reports from public companies; and, independently, you can research the U.S. business press, which reports regularly on franchise concepts.

Finally, don't neglect networking with your own national franchise association. It can be a valuable source of information, not only about the state of and prospects for franchising in your country, but perhaps even about the company itself.

The Role of Counsel

As businesspersons considering franchising — whether as franchisor or franchisee — you are likely to be more experienced and sophisticated than the average person. And one of the principal differences is

that you are more likely to know what you *don't* know, and what you *can't* do on your own. One of the resources to which you should certainly turn is an experienced franchise lawyer.

You should talk candidly with your own counsel. You should be able to expect him to be equally candid with you, and to tell you whether his experience has prepared him to give you the help you need. If not, he should welcome your seeking experienced counsel with substantial franchise expertise who can address the legal issues involved in many steps of the transaction — including, ultimately, the franchise agreement.

In addition to legal advice, your franchise counsel should be able to help answer many business questions that are closely related. In short, your counsel should be someone who can draw on a wealth of previous experience with a number of franchises in various business sectors and in many countries.

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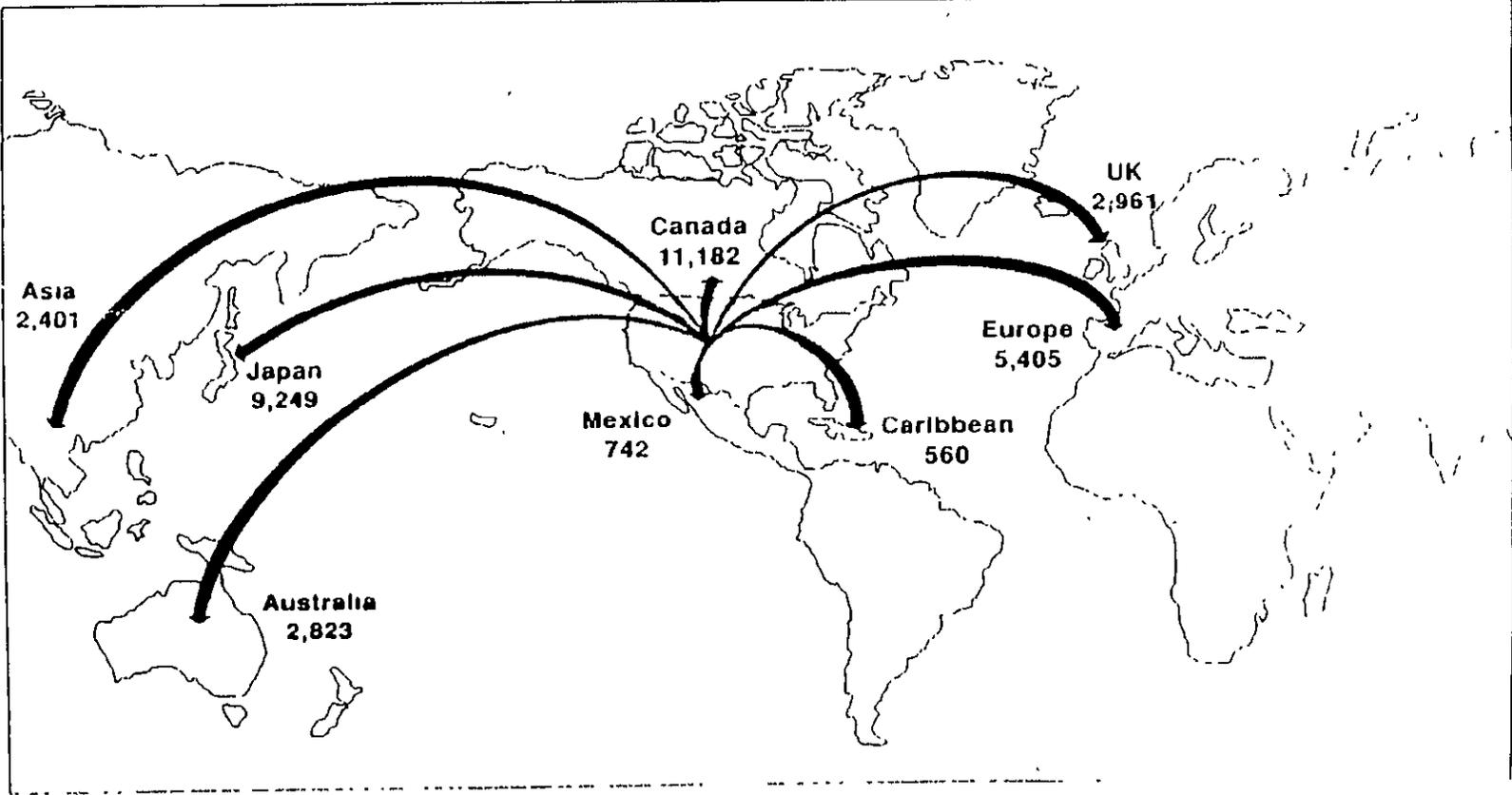
WRITERS DIRECT DIAL NUMBER

PHILIP F. ZEIDMAN has an international reputation as lawyer, writer and speaker. Mr. Zeidman has spent more than 20 years in the practice of franchising, licensing and distribution law. He was a founder of Brownstein Zeidman and Lore, Washington, D.C., where he now is the senior partner and heads the firm's Franchise Group. Over the last two decades the firm has represented literally hundreds of franchisors in every aspect of franchising, both nationally and internationally.

Mr. Zeidman is General Counsel to the International Franchise Association, and Special Counsel to the Japan Franchise Association. He was the first chairperson of the Franchising Committee of the American Bar Association; and is Chairman Emeritus of the International Franchising Committee of the International Bar Association. He is editor of two important books on franchising, *Legal Aspects of Selling and Buying* and the American Bar Association's *Survey of Foreign Laws and Regulations Affecting International Franchising*.

Mr. Zeidman has been engaged in franchising development in more than 30 other countries. Most recently he has been a founder of EastEuropeLaw, Ltd., a venture of independent law firms and attorneys, with its first office in Budapest, Hungary. EastEuropeLaw assists franchise clients that wish to enter the markets of Central and Eastern Europe.

International Franchising – 1989



Number of Outlets: 37,654
Franchising companies: 397

Source: International Franchising Association/Horwath International, *Franchising in the Economy 1991*

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Notice, Hungarian Franchise Expo,
Budapest, May 3-5, 1993

Outline of Remarks to the Hungarian Franchise Association

FRANCHISE HUNGARY '93

BUDAPEST, 12 - 14 MAY, 1993

FIRST ANNOUNCEMENT

The Interpress Exhibitions Ltd. in close co-operation with the Hungarian Franchise Association is going to organize again next year the FRANCHISE HUNGARY international exhibition which took place for the first time in Hungary on May 7-9, 1992 in Budapest, in the Astoria East-West Business Center.

The aim of the exhibition was to popularize the franchise as a form of entrepreneurship, to get Hungarian business people - as well as private persons looking for an entrepreneur possibility - acquainted with franchise systems already working in Hungary. The franchise could play a very important role in stimulating foreign capital investments, spreading developed technologies and know-hows in Hungary, in the privatisation program of the country and in activating the market of small and medium size enterprises.

The FRANCHISE HUNGARY '92 served these aims well and reflected the real situation of the franchise in Hungary. Although this first exhibition - considering its size - was a modest one, and the introduction of plenty of foreign systems is still wanted for, the event was a milestone in the history of Hungarian franchising. It created the platform of a regular, yearly organized forum in Hungary for those, who are interested in offering or taking over franchise systems. This forum is rapidly going to increase parallel with the development of the Hungarian franchise market. Thanks to the FRANCHISE HUNGARY the local franchise activity became more vivid. It is proved by the dynamic expansion of the working franchise systems and the appearance of new brands on the market. Furthermore the franchise as a technique which can be applied successfully in privatisation awoke the attention of the experts and investors. The importance of the event is emphasized by the fact that the Ministry of International Economic Relations as well as the Ministry of Industry and Commerce were its sponsors.

Next year's exhibition will be held on May 12 - 14, 1993 in the Assembly Hall of the Budapest University of Economics, to which all who are interested are cordially invited.

- space only: DEM 264.-/m²
DEM 227.-/m² for members of national franchise associations
- shell-scheme: DEM 340.-/m²
DEM 304.-/m² for members of national franchise associations

Minimum area to be requested: 9 m². The prices above are subject to a VAT of 25%.

In case of request the possibility to introduce a franchise system within the framework of a seminar will be assured.

For any other information concerning the exhibition please contact:

Interpress Exhibitions Ltd.
Mrs. Zsuzsanna Papp / Mrs. Ibolya Seifert
Budapest VII. Károlyi krt. 9.
Letters: H-1364 Budapest Pf. 290
Phones: (36-1) 112-1033, 112-2291, 132-3593
Fax: (36-1) 132-7765, 132-1751
Telex: 22-5080

The Secretariate of the Hungarian Franchise Association is at your disposal in all the questions of franchising in Hungary you may have. Please turn to:

Hungarian Franchise Association
Dr. István Kiss, Secretary General
Budapest, II. Margit krt. 15 - 17.
Letters: 1536 Budapest, Pf. 446
Phone: (36-1) 115-4619
Fax: (36-1) 135-9349

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MEMORANDUM

TO: PFZ
FROM: FSP *Winkler*
RE: Remarks: Hungarian Franchise Association
DATE: May 10, 1993

N.B. No backup beyond that already in hand should be necessary. If there is something you want specifically, of course, please let me know and I'll fax to EEL.

I. Introduction

- A. Appreciation to HFA and Dr. Kiss
- B. An extraordinary honor to be here
- C. The emphasis, in this instance, on

extraordinary

D. EastEuropeLaw has been in Hungary for an eventful period: from a moment when one could not envision franchising being accepted in a country where the language had no word for the concept to the second annual Hungarian Franchise Expo -- a remarkable change in the concept of entrepreneurship in an amazingly short span of years.

E. Therefore, I want to express the honor that you deserve -- for your awareness of the advantages that franchising can bring to Hungary, and your commitment to making it happen.

II. An Unnecessary Question

A. I frequently start off remarks of this type with a brief focus on "What is Franchising?". Your presence here, however, cancels the need for doing so.

B. Perhaps a better question in this instance is what I have learned about franchising and its transference to a changing economy.

C. Certainly there are negatives as well as positives.

III. The Two Columns

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A. Many of us learned, at home or during our years in school, the technique of using two columns on a piece of paper to help make a decision or compare the two sides of an issue.

B. Consider, briefly, the left hand column, the negatives that have become apparent over the last several years.

1. Risk. It is certainly not as easy as we had thought to export franchising wholesale -- not just the huge global companies, but the whole array of franchise sectors -- into a new market in a compressed time period.

2. Concomitant factors -- particularly credit and investment capability -- are critical.

3. Those who may have looked initially at this market, called Central and Eastern Europe, have now realized, one hopes, that "Central and Eastern Europe" is an easy form of shorthand. Those involved in spurring the expansion of franchising, however, are now fully aware of the variations involved in doing business in each individual country in the region. And whap moves smoothly through government approval in Hungary may be caught in a morass in Poland or Czechoslovakia.

4. Perhaps weighing heavily on the negative side is the unexpectedly uncertainty U.S. franchisors have exhibited overall, albeit for many good reasons. As noted later, EastEuropeLaw has focused a great deal of time and energy to change this -- with some prospect of being able to judge our success next month.

C. The right side of the column is longer -- and stronger.

1. As noted earlier, this meeting of itself is evidence of the change.

2. Franchising in Hungary today has an association, leading figures, companies that are expanding outside of Budapest -- all supporting a contention that those who move early, despite risk and difficulties, are most likely to succeed.

3. When we speak of franchising in Hungary, the term includes indigenous franchisors as well as U.S. companies -- well ahead of the pace in other markets where franchising has a longer history.

4. The HFA itself has reached a level of sophistication that enabled it to respond to and address the prospect of franchising legislation, and work with other franchise associations to respond to the unnecessary initiative.

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5. From a personal perspective, what has been most fascinating and rewarding in the years EEL has been active, has been the level of excitement, interest and enthusiasm that has responded to every article, speech and seminar that have explained and disseminated the franchise concept, from Warsaw to Sofia and Slovenia.

6. Perhaps most significant, and initially unexpected, has been the realization that franchising has more to offer than the distribution of goods and services: that it has real potential as a vehicle for privatization in the new economies in this region -- and in other parts of the world as well.

IV. In Conclusion -- June 21

A. With the support of USAID, EEL has a unique opportunity to promote franchising and match U.S. franchisors with potential Hungarian investors, Master Licensees, and franchisees.

B. June 21.

C. Those of you who take part in that meeting can add to the positive side of the column --

1. By participation in an event that affords access to a number of outstanding U.S. franchise systems;

2. By involvement in a substantive activity that is transaction-oriented; and

3. Potentially strengthening the entrepreneurial sector in Hungary

4. For those who are interested, more detail is available at the EEL booth here at the HFE; through Dr. Kiss; or through additional discussion with me or T. Kovacs, resident in Budapest for EEL.

5. The June 21 event, and the activity over the next three days, should be reflected in an even more successful Expo next year. I look forward to speaking to you over the next few days, and to another opportunity to do so in June, and at next year's HFE.

fsp:wp:24753

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Philip F. Zeidman
May 7, 1993
page 2

Location of the HFE:

BUDAPESTI KÖZGAZDASÁGTUDOMÁNYI EGYETEM
(Budapest University of Economics)

FÓVÁM TÉR 8

1093 BUDAPEST

Your lecture is scheduled to be from 12:30 to 1:00 p.m. entitled "American Franchises in East-Europe". The lectures, including yours, will be held in Lecture Hall III of the Budapest University of Economics

Business Meetings

Budapest, May 1993

-51'

**Examples of Business Meetings
Budapest, May 3-5, 1993**

1. Dr. Ildiko Radvanyi
Radvanyi & Partners
2. Dr. Sajo Janos
ZAREX
3. Dr. Laszlo Szabo
Inter-Europa Bank
4. Dr. Stephen Benko
Citizens Democracy Corps
5. Ms. Mary Likar
U.S. Agency for International Development, Hungary
6. Dr. Gabor Kende
OTP Bank
7. Ms. Katalin Barazda
U.S. Foreign Commercial Service
American Embassy, Budapest

Privatization/Meetings at the State Property Agency
Budapest, January 1993

Franchising and Privatization

by
Philip F. Zeidman

Founding Principal
EastEuropeLaw, Ltd.
Budapest, Hungary

Founding Principal
Brownstein Zeidman and Lore
Washington, D.C.

An Outline for Presentations to Meetings co-sponsored by major Hungarian banks and EastEuropeLaw, Ltd., (Budapest, January 26-27, 1993); for presentations before the Hungarian State Property Agency (Budapest, January 27-28); and at a presentation to the World Economic Congress (Davos, Switzerland, January 29, 1993).

PRIVATIZATION: In Brief

- I. Privatization is an outgrowth of the movement toward democratic systems that the countries of Central and Eastern Europe, and the NIS, are pursuing.
 - A. Variations on the theme: each privatization program has specific variations from country to country; no two are exactly alike.
 1. Hungary
 2. Czechoslovakia
 3. Poland
 4. Russia
 - B. Privatization is also a wide-spread approach to economic change in other developing countries. For example, countries in--
 1. Asia
 2. Africa
 3. Latin America
 - C. Privatization, however, is not restricted to developing countries.
 1. The United Kingdom
 - a. The postal service
 - b. The railroad system
 - c. Other examples
 2. The United States
 - a. Privatization of federal activities
 - b. Privatization of state and municipal services
- II. Of the Principal Objections to Privatization Thus Far, Many Can be Alleviated Through Techniques Like Franchising.
 - A. Is it equitable?

- B. Privatization frequently is slowed down, or blocked--
1. By the simple enormity of the task.
 2. By concerns about political and economic risk that often are corollaries to privatization.
- C. Privatization by itself does not--
1. Improve the quality, appearance, efficiency of the privatized entity.
 2. Necessarily improve the quality or speed of delivery of goods or services produced by the privatized entity.
 3. Necessarily reduce the cost of the goods and services to the consumer.
 4. Increase employment.
 5. Provide long-ignored basic management skills/training to mid-level managers.
 6. Spur regional investment, because the variation in approaches makes such investment unduly complex.
 7. Increase the number of small businesses or small-to-mid-sized entrepreneurs.
 8. Increase the number of "new" businesses.
- D. Privatization of the largest enterprises, which are natural targets, is a high-cost investment.
1. Often requires foreign investor or co-investor to proceed.
 2. May raise anti-foreign sentiment in privatizing country.
- E. How franchising can alleviate many of these concerns.

III. Franchising and Privatization.

- A. Franchising Basics
- B. The Economic Significance of Franchising
- C. Some Examples: How Franchising Works
- D. The Relationship Between Franchising and Privatization
 - 1. The Perspective of Various Parties
 - a. Governmental
 - b. The U.S. Franchisor Entering The Eastern European Market
 - c. The Eastern European Franchisor
 - d. The Eastern European Master Licensee
 - e. The Privatizing Company
- E. The Potential for Franchising and Privatization
- F. Is There an Appropriate Role for Government?

IV. Conclusion.

- A. Evaluating Privatization
- B. Franchising and Privatization: What Can We Expect?

MARCH/2 1993. VOLUME 2. NUMBER 6

PRIVINFO

PRIVATIZATION
IN HUNGARY

Franchise and privatization in Hungary

Franchise might become a new entrepreneurial form of privatization in Hungary. This was one theme in the conference "The Franchise in Hungary" recently held by EastEuropelaw and the National Savings Bank in Budapest recently.

Foreign and Hungarian contributors of the event have lectured on the basic principle and economic importance of franchise, have presented the application opportunities of the method in privatizing state companies and services, and have also discussed financing issues.

EastEuropelaw Ltd was established by American and British lawyers and lawyers' offices. Their goal was to spread franchise as an entrepreneurial form and a privatization tool throughout Central and Eastern Europe. USAID, the international development office of the United States, provides financial support for their program. EastEuropelaw Budapest Ltd. tries to expand the knowledge of Hungarian state and entrepreneurial organizations on franchise by organizing lectures and conferences. In addition, they supply Americans transferring franchise with Hungarian market information.

According to Philip Zeráman, co-founder of EastEuropelaw, franchise as a privatization method can be successfully applied to those companies whose structure and management is similar to those usual in franchise systems. Good examples are trading companies, big department stores, hotels and tourism services with national and regional chains. In privatization by franchise, there is no need for a single big investor to buy the whole chain; individual units may have separate owners. The central organization can be the recipient of the

franchise which, after that, transfers the method to the units of the chain. The taking over of tested know-how ensures the efficient functioning of an enterprise, and this matches the genuine goals of the change of ownership.

Franchise may also promote the development of domestic small enterprises. International experiences indicate that the adoption of the method considerably improves the odds of a new enterprise's survival. It provides ownership acquisition opportunities to small investors, and drawing on the population's money also makes it easier to finance privatization. Finally, it ensures that domestic property remains in domestic ownership.

A number of Western franchisers are present in Hungary. Franchisers settling here generally run their enterprise in partnership with a local company.

The Hyatt International hotel chain opened the Budapest Atrium Hyatt Hotel in 1982. Hotel Novotel Budapest is a member of the French Accor hotel and catering company group.

Among fast-food chains well-established in franchise enterprising, McDonald's was the first to appear on the Hungarian market. The American company established a joint venture with the Bóbolna Agricultural Company, with each side holding 50 percent. McDonald's restaurants have quickly spread throughout both the capital and countryside.

Pizza Hut, Kentucky Fried Chicken and Dunkin' Donuts restaurants and shops are run by the Central European Franchise Group, with exclusive franchise rights in Hungary. Burger King and Dairy Queen have also opened their first shops in Hungary.

The MicroAge international computer technology and software company authorized Duna-Elektronika, a Hungarian-American joint venture, with exclusive franchise right and it operates 20 shops in the country.

Franchise chains are also operating in the field of services, such as the Mister Minit shoe repair quick service.

Franchise, the privatization technique

The study abridged here has been prepared by a working group of the Hungarian Franchise Association for the PRI-MAN Company.

THE PRINCIPLE AND GENERAL ASPECTS OF FRANCHISE

A franchise-type enterprise is an activity in which the franchiser sells together with the use of brand name and full-scale training a complex system thoroughly formulated in every professional and commercial respect and successfully tested in market economic circumstances to the franchisee who, for paying a licence fee, runs it for his own benefit as an independent enterprise, on an agreed field and for a set time individually, but on the basis of prescriptions and constant assistance of the franchiser.

The essence of the franchise form is that the framework and content of the enterprise can be simply multiplied and run, the

entrepreneur is independent, but he is still not alone. In view of the state of the Hungarian enterprising culture and the lack of necessary knowledge, it is no exaggeration that franchise might become one of the most ideal tools for dynamically shaping up and developing the Hungarian private sphere.

SOME TIMELY HUNGARIAN ASPECTS OF FRANCHISE

In the Hungarian situation, it is important that the following features exist:

- a franchise system has proven its successful operation amid market circumstances,
- the franchisee receives not only a full (professional management, marketing, financial, etc.) system, but is also trained professionally and for the management of the enterprise,
- his enterprise, to be financed himself, is legally and fiscally independent.

- his activity is limited in time and scope;
- he does his job according to instructions, and not based on his own ideas;
- although a considerable part of the profit is the franchisee's, he has to pay various fees for the usage of the system

A franchise-type enterprise satisfies those basic governmental priorities which are crucial among Hungary's long-term economic and social goals. The following are listed in this category:

- assisting private enterprises,
- in the framework of privatization, transforming state companies and dividing them into independent units in the field of small trade, services and tourism,
- creating jobs to fight unemployment and promoting individual existence on a personal or family basis,
- developing underdeveloped regions and increasing their economic and business potentials,
- naturalizing modern management knowledge and techniques;
- drawing in foreign capital;
- attracting and drawing in private capital and savings in business life to an increasing extent;
- forcing the production of high-standard products to increase export potential;
- utilizing foreign credit opportunities and eventual aid on an operative, business basis, in accord with the main considerations of the creditor

In general, it can be established that franchising in perspective, is able to create a system

- which is interconnected,
- representing a strong economic and business potential,
- realizing modern management knowledges and techniques
- utilizing foreign and domestic private capital
- having the potential to create jobs,
- creating an individual existence for the enterprising population and
- providing an attractive alternative,

which may help considerably in solving the solution of the country's economic problems

It should be emphasized that a government is not only interested in supporting private enterprises in general, but in doing so to create successful enterprises. This is not only important for efficiently utilizing scarce financial resources, since enterprises going bankrupt one after the other in the near future (witness the 75 percent bankruptcy rate within five years of independent enterprises in the Western countries') would result not only in the low-efficiency utilization of financial opportunities but would discredit the enterprise itself, and would result in a negative foreign evaluation of Hungary. From this point of view, the very high success rate of franchising deserves special attention

The main emphasis of foreign assistance will continue to be directed at putting us in action and promoting our individual initiatives.

In view of this, attention should be paid to the following elements of franchise

- the promotion of capital flow in case of proper reception
- the promotion of naturalizing modern management techniques, methods and knowledges;
- education and professional training;
- assistance to private enterprises

FRANCHISE AND PRIVATIZATION

In Hungary, franchise may have an extraordinary role in transforming state companies to be privatized

For Hungarian companies used to functioning amid command-economy circumstances, franchise is specially suitable for renewing their organization and their applied methods. This is a special historic feature of franchise in Hungary today. Hungarian companies cannot avoid transition to market economy methods.

With a market economy forming and competition appearing, the success of individual companies will also depend on the efficiency of applying market methods, including efforts to achieve an evenly high standard, and resourcefully and efficiently satisfying customers based on their demands. It is extremely difficult, in fact, almost impossible to realize these goals at a company where these principles were ignored for decades, since the habits of many years and the absence of business-centered thinking cannot be eliminated in a short period

However, the purchase, for example, of the master licence of a foreign franchise system considerably eases the situation, since the force with which the system is applied does not provide a diversion from the road successfully taken elsewhere. A franchise system through an almost scientific analysis of the consumers' demand contains

- the composition of products/services adapted to demands
- successfully tested and efficient methods which make the quick and cultured supply of products/services adapted to real-life conditions possible
- the criteria to select location,
- the internal and external view of the premise, the snoring of furniture and functionality,
- the criteria to select the manager of the unit with such a "built-in" self-motivation which is able to guarantee a constant intellectual and physical commitment,
- efficient advertising methods,
- a clear financial record-keeping system providing, in many cases, financial advantages,
- a name which can accelerate the acceptance of the products/services of the chain,
- training to apply, on a high standard, the existing methods
- continuous assistance in solving market problems emerging during operation

Of course, it would be a mistake to suppose that the purchase of a system guaranteed success. Its efficient application, however, might solve numerous problems of a company. Opportunities open up to:

- efficiently apply turn-key market methods,
- raise the intellectual standard of the company and form the quality of corporate culture,
- rationalize hierarchy,
- fully change the product range;
- basically transform, along with privatization, the already functioning shops,
- change the qualitative composition of employees'
- invest financial assets more efficiently than before;
- develop technology and continuously share the results of the innovation process,
- join a chain, eventually comprising several countries, which

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might extend an international relationship system and, in many cases, additional export (supply) opportunities

This method might be a way out of one of the principal catches of privatization: *the majority of Hungarian companies handle privatization not as a tool, but a goal in creating conditions for a more efficient functioning.* The shortcoming of this principle is that it supposes that a "new world" will arise through the appearance of new methods

However a rationally thinking businessman cannot be expected to tolerate several months of helplessness and a complete lack of initiatives and business policy. Experiences so far prove that the tough part is still to come after privatization: dismissals, economizing, product and activity streamlining will start without mercy. How much easier is the situation of a company if it has ready principles, if its managers know exactly what the market demands and if they prove their abilities to satisfy demands

FRANCHISE AS A TOOL OF PRIVATIZATION

- An example from the practice of Zarex -

Zarex Hungary has worked out the so-called "Double Privatization" method, the essence of which is the following:

- As a first step the privatization method includes the purchase of the state-owned company (together with its chain) and then its transformation into a franchiser. (This tool is successfully applicable mostly among commercial or servicing companies)

- As a first step of the method, a further privatization occurs with the realization of the franchise system, during which this step is realized either by developing the franchise system or by the so-called franchise conversion. In this framework the chain is sold to entrepreneurs who will run the units as franchisees

The double privatization method ensures the following advantages:

- a genuine privatization occurs, that is, the company's units go to the ownership of entrepreneurs;

- units which have gone to the ownership of entrepreneurs and the franchiser are equals, thus ensuring that market relations prevail;

- the franchiser can assist the units run by entrepreneurs in many ways, thus entrepreneurs can operate their units more safely, it may ensure or free a considerable surplus capital of the system functions successfully;

- it can be financed on various levels (either the franchiser or the franchisee) from foreign or domestic resources;

- it ensures that the property remain in the ownership of Hungarian entrepreneurs

Double privatization worked out by Zarex Hungary can provide assistance in the Hungarian privatization practice in two ways.

In both cases, the advantageous characteristics of franchise can be used to help privatization

a.) One is when a company does not have its own chain, but has an activity which is suitable for franchising. In this case one of franchise's characteristics can be utilized: a surplus profit resulting from a dynamic increase, which can be spent on financing privatization.

b.) The other is when a company has its own chain and the so-called franchise conversion can be realized. This solution can be considered a regrouping of franchising capital. In this strat-

egy, the company sells its business property. However, instead of selling the property to outsiders (e.g. foreigners), it is purchased by employees or Hungarian entrepreneurs

The property is sold to those who agree that the business be run under the franchiser's existing brand name and business methods

In such a case the company can regain its invested capital (or more), and maintains its control over the capital through the franchise system

The so-called double-privatization tool utilizes franchising to realize the sale of state-owned commercial and servicing property to entrepreneurs

During the practical application of the double-privatization method, Zarex Hungary also presses for the application of other privatization techniques. Depending on the concrete case, Management Buy-out (MBO), Management Buy-in (MBI) and Vendor Take Back solutions can also be applied. Among them, MBO and MBI should be emphasized.

According to our experiences, to successfully realize double privatization, an expert and financially committed management is indispensable. For this, as a first step of double privatization, it is expedient to utilize an MBO, since the chances of success are much better this way.

FINANCING FRANCHISE

A cornerstone of Hungarian privatization, and thus in the establishment of franchise systems as well, is financing. In countries with a developed market economy a number of financing systems help franchise spread. Franchise systems can be financed on various levels, and these together can result in entrepreneurs launching their enterprises with a smaller own resource

Financing opportunities of franchise are the following:

- financing the franchiser - by credit and capital

- financing the franchisee - mostly by credit, but eventually by capital,

- ensuring various guarantees for both

The complex application of these, such as in Canada, makes it possible for entrepreneurs joining some franchise systems to launch their enterprise with a 10 percent own resource. This opportunity would be useful in Hungary, all the more so since in the current situation of transformation, entrepreneurs are more financially vulnerable than usual

This was recognized by Zarex Hungary when it started to establish the Hungarian Franchise Privatization Fund. This investment fund organized on a Western model (in addition to which the European Bank for Reconstruction and Development wants to bring about a parallel fund) will assist financing franchise systems established on the basis of the double Privatization method and within that, those where MBO or MBI have been applied

Approaching the end of organizing the fund, privatization is unquestionably successful on a franchise basis. Franchise can establish a refunding efficiency which is difficult to ensure by other means.

A CASE STUDY IN UTILIZING FRANCHISE AS A PRIVATIZATION TOOL

The Tisza Élelmiszer és Vegyiáru Kereskedelmi Vállalat (Tisza-Fűszért, the Tisza Food and Chemicals Trading Company)

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is a food wholesale company established in the old system. Amid the new economic relations, it had increasing difficulties existing in this form. Recognizing this, the company's management decided to transform and privatize the company. They planned to implement privatization in three steps:

- *First step:* the company's transformation
- *Second step:* the privatization of the company's units (e.g. storehouses)
- *Third step:* the public issue of the company's shares.

Simultaneously with the second step of privatization, however, they planned to realize steps which considerably increase the company's value and the efficiency of its operation. A basic element of this is integration with small trade, which the company has started.

It has become clear that the wholesale activity itself cannot be run efficiently. Of course, the company did not have enough capital to establish a small trade chain. For this reason, they decided to create the necessary trading activity around the wholesale line by franchise. The company planned to establish various franchise systems, some of which are on their way to being accomplished. These franchise systems are the following:

1. Joker Market franchise system, which is basically a wholesale franchise system. The franchise system was planned last year, and realization and the establishment of the system is currently going on. The company has concluded a preliminary agreement with 110 small traders. Their testing is underway. Those who meet the requirements can be members of the Joker Market system.
2. The working out of an ABC department store franchise system has started recently. It makes it possible for medium-category ABC department stores of 300 to 600 sq m to join Tisza-Fuszért. Tisza-Fuszért has the type of shop and it will be the sample shop in working out the franchise system.
3. Tisza-Fuszért plans to join an existing franchise system worked out for food shops with a small area. It would be a franchise system of 100 sq m shops.
4. In the past two years, Tisza-Fuszért has started to establish discount department stores. At present, seven such units are operating, and the opening of three to five are being prepared. This type of shop is also suitable for franchising.

Tisza-Fuszért, during its own privatization, is trying to utilize franchise in order to create a small trading activity in addition to wholesale, which considerably improves the efficiency of operation.

If these systems are run well, small trade revenues will considerably increase.

Franchise systems will make it possible for the company to considerably expand the operation area which, at present, is limited to two counties.

The company will be able to spend a part of its profit earned by the dynamic increase of the franchise system to modernize the company.

The franchise system will force the company to adapt flexibly and quickly to market relations.

(In the initial period of the privatization of Tisza-Fuszért, Zarex Hungary acted as a franchise consultant.)

DECISION ON FRANCHISE DURING PRIVATIZATION

For some state companies during or prior to privatization, franchise is mentioned as a version of transformation. The franchise enterprising and marketing method is not the sole and solely redeeming method in the countries involved. This procedure cannot even be realized and applied in every economic unit. In a classical sense, those companies which provide some services or have a national or regional chain can be taken into account. Fuszért companies conducting wholesale activities and having small trade shop chains, Áfész companies, Tuzep companies specialized in fuel and building materials or service companies such as Patyolat (laundries) and Fővárosi Takarító Vállalat (cleaning) are good examples.

International experiences, however, indicate that the field of operation of franchise-system companies is even wider. In general, it is worth thinking of franchise for those companies whose activity, partly or fully, can be comprised in a system. It is also important to analyze whether the market is able to bear a new chain in its field of activity.

To answer the first basic question is possible following a thorough preparatory survey prior to decision-making. It should spread over the current market position of the economic unit and principles formulating the goals to be achieved by applying franchise. Furthermore, a part of this study is the evaluation of the economic unit's market environment and the analysis of how the future development plans of the company harmonize with the expected motion of the market. This preparatory part very important in view of the future of the economy unit is a result of teamwork. There is a need for external specialists expert in franchise, but no reliable material can be prepared without the experience and knowledge of the company's top and/or medium-level management.

ANALYZING DECISION SITUATIONS

The company's management or the organization responsible for the company's privatization (consultant) should make a number of decisions even prior to the transformation period preceding privatization.

Among the decision strategy versions, franchise, as an enterprise-business-marketing tool (if the company is otherwise suitable for franchise) is one of the strategies.

Franchise, as an alternative privatization procedure, can emerge in two phases:

- prior to privatization or
- after privatization

If the company management selects franchise, most of the questions can be answered by thoroughly examining the old pre-transformation structure and operation. Necessarily, the old organizational frameworks are replaced by an organization supporting up-to-date operation. Their smooth transformation can be tried, but a number of experiences indicate that each transformation entails small or big sacrifices. In the new organization independent even from franchise, new functional units are brought about, and old ones, unsuitable for the new frameworks, disintegrate. During transformation, decisions should be made to terminate organizational units or establish new ones.

Is an old organization suitable for realizing a franchise transformation? Is the old management in the position to make tran-

chise-type transformation-related decisions excluding external effects?

If they decide in favor of a franchise, it should be clarified whether franchise elements should be built into the new company structure in the initial phase of transformation or at the final phase of privatization.

In the case of commercial franchise systems, the central management is transformed, and the wholesale and small trade functions are partly merged. The importance of the marketing organization changes. At the same time, an organizational unit dealing with assisting and training the franchisees should be established. A close daily connection between the franchiser and the franchisee will be maintained throughout the whole contract period.

Franchisees of commercial and servicing character may have the chain units forming the subject of privatization prior to transformation, but there will be franchisees who would like to establish and organize their chain during transformation. When establishing a chain, however, the latter should expect to find themselves in front of entrepreneurs and not shop assistants. Or, the opportunity should be provided in the case of good franchise systems for the franchiser to take over complex chain systems. Decisions in this respect are shifted towards financing questions: Is a company raised on old corporate habits suitable for accepting and managing the new chain structure? Perhaps these questions can only be answered if the new company management is ready to start.

It is clear that whichever phase of transformation is considered the start of the franchise, the organization running franchise should first be established, and the privatization schedule of the chain units should be set.

Compared to old structures (e.g. contracted shops), commercial or servicing franchise runs the chain's units in a closer contractual form. At the same time, the relation between the shop chain managers and the center receives a new quality: their relationship is not subordination but equality.

For non-commercial franchise systems the organizational change-generating effects of transformation are also valid.

In making decisions, the examination of the economic environment is not insignificant either. A number of franchises running abroad cannot be naturalized in Hungary, because the franchiser is reluctant to accept the Hungarian economic environment, the taxation and legal background. Until these are brought to the level of industrially developed societies by proper legal rules and regulations, a number of unanswered questions remain in the field of franchising.

When taking over foreign systems, the suitability of the franchisee should also be examined in addition to the general Hungarian economic environment. A number of well-running franchise systems are unable to set foot in Hungary due to its obsolete technical means and outdated technology. In the framework of franchising, the franchiser provides some means for a rental fee to the franchisee, but does not expect, among others, the establishment of spaces influencing the operation of those means and the problem of their servicing. Storage and supply problems may question the very feasibility of the operation.

Franchisees should meet basic demands to run the system. These are basically changes in approach, that is, employee approach should be replaced with ownership approach.

In franchising, financial questions should also be answered. Not too often, franchise systems are self-financing, but franchising with the help of credit is more frequent.

In view of the Hungarian circumstances, this latter financing method should be first examined. A separate chapter deals with financing questions; here this question is examined only from the point of view of the franchisee. In the case of commercial franchise, the franchiser can extend commodity credit and payment allowances for the franchisee if he sees the short-term re-funding of his investment. Of course, the questions of franchisee's suitability basically concern operation, but the expected profit or financial assets extended by the franchiser should not be ignored either.

To make a franchise system acceptable for banks interested in financing or would-be franchisees, a month-by-month feasibility table should prove to the franchiser that if he follows directions carefully, the business venture will show a long-term profit within a set period.

The franchisee also makes decisions on his own level. He has to acquire financial assets necessary to launch and run the enterprise, to be able to resettle it in a short period in proportion with the course of business. For this, he has to know the market of his business' field of operation. These should be tested and analyzed in an analytical examination form beyond marketing.

Franchise is built on a long-term business policy. For this reason, during the course of business franchisers and franchisees face a number of analyzing and evaluating tasks. Also, during sales in course of business, decision-making situations may emerge involving the longer term. These effect franchise basically or, in the worst case, may terminate it. On the basis of examples of franchise systems functioning amid developed economic circumstances, it can be safely stated that bankruptcy procedures are fewer for franchise-type enterprises than for business ventures privatized by other means.

A basic question emerging in the course of privatization is whether a company should purchase or develop a franchise system. The following sub-chapter deals with this question.

A HUNGARIAN FRANCHISER OR THE MASTER FRANCHISEE OF A FOREIGN SYSTEM?

If preliminary analyses and evaluations are clearly positive the question emerges whether to develop or purchase, that is, whether a company should be a Hungarian franchiser or the Hungarian distributor of a foreign system. This is the cornerstone of the transformation of the whole company. There are numerous pros and cons in both versions. A (by no means comprehensive) list of typical ones follows here, with the caveat that no general recipe exists. With each company, it should be examined separately which version is the best.

Pros to taking over a foreign franchise system.

1. The point is the taking over of an existing system which has been tested in practice, approved by the market and having a market value.
2. In taking over a foreign system, government loans or other preferential loans can be drawn in a considerable part of the cases.
3. The taking over and spreading of a well-known foreign system serves as a model for Hungarian companies functioning

in a similar field and expanding its chain as to the Western standard and quality.

4. The Hungarian franchisee may eventually grab domestic supplier export opportunities.

Pros to working out (developing) a Hungarian franchise system

1. Hungarian franchise systems are established according to Hungarian consumer habits and traditions, in accordance with the valid accounting laws and legal practice.

2. Precious Hungarian knowledge, experience and system of relations can be utilized in the Hungarian franchise systems, indispensable in chain-type functioning.

3. Adapting to the Hungarian economic environment, Hungarian franchise systems can be worked out less expensively and introduced gradually.

Franchise will become general in Hungary and take its place and fulfill a long-term function in economic life if, in addition to well-known and popular foreign systems, there will be successfully operating Hungarian franchise systems too; chains based on Hungarian market characteristics meeting the requirements of the franchise enterprise form and following its internal logic, and satisfying the requirements of the European Code of Ethics, which can amply prove that this marketing enterprise form, by adapting foreign systems, not only takes a place in the economic public thinking, but is actively applied in the proper development phases of company structuring.

There is an opportunity, however, to realize a new idea in practice to work out a franchise system for foreign goods and/or services in Hungary according to Hungarian circumstances and requirements. After its introduction and chain-type spread in Hungary these systems are easier to adapt, in a second step, in the neighboring post-socialist countries than those coming from the market economy countries. There is an example for such kind of experiment.

The import of goods and services does not necessarily draw the continuous import of the product. With a properly established industrial, agricultural, packaging and servicing background, the franchise system in question can gradually rely on Hungarian suppliers. Thus franchise systems can act as drawing branches too. Meeting European-standard requirements, they can replace imports in a number of fields; moreover, Hungarian suppliers might become exporters of a product or service.

SAVING CAPITAL IN THE LONG TERM - INVESTMENT IN THE SHORT TERM

Among the main advantages of the franchise enterprising form, saving capital is often emphasized. This is true, and every franchiser considers it. This, however, does not mean that the potential franchiser should not consider various (often big) investment when working out the franchise system of one or more own units. An earlier, well-functioning company consisting of several units should be transformed and reorganized so that it can run and control a whole chain, while its own units should smoothly function even in the period of transformation.

As a first step, the future franchiser should systemize in writing the elements of his successful venture. He has to do it

so that each unit of his company should be operated profitably on the basis of those put down. He has to prove with figures that the operation of the individual units is profitable. As a first step the entrepreneur who wants to join the system should examine how much time and what conditions it will take for his invested money to be earned back. The development phase of the system includes a handbook which discusses the minutest details of the course of business.

Furthermore, an organic part of the system is the accounting system, which is equally important for the entrepreneur as an aid and a control tool for the franchiser. The legal part is one of the foundations of the functioning franchise systems. Agreements concluded with the entrepreneurs regulate the rights and obligations of the franchiser and the entrepreneurs throughout the whole contract period. It is an important part of the legal work, but also important are the string of contracts and agreements which the franchiser concludes with sub-contractors and suppliers. Without them, the franchiser would be unable to run his chain and ensure smooth operation for each of his entrepreneurs, thus question, in practice, the whole chain-construction.

Every franchise system is measured twice: first, among those entrepreneurs who are considering launching their own enterprise or joining an existing chain, or considering which chain to join; second, among consumers when the chain is built up and spread.

Thus it is not enough to comprise a successful venture in a franchise system: necessary infrastructural conditions to continuously run each member of the chain should be created right at the beginning. It involves suppliers, but also supposes considerable organizational transformation within the mother company. An operative organization should be established which is in daily contact with entrepreneurs, and which analyzes and evaluates every motion of the market affecting the company's operation and market position. It is not enough to build up a chain, a market position according to the state and preparedness of the company should be achieved and maintained. Without hard work, up-to-date market knowledge and their realization in the company's operation, no company can last on the market or maintain and improve its position for long. The company's operation should mesh with market demands and requirements.

The working out of a franchise system involves considerable investment on the part of the company that cannot be shifted, in the initial phase, to entrepreneurs joining the system. The compilation of a proper financial packet would be necessary to assume at least a part of these costs. It would consist of several parts, depending on the phase of the system's working out and how successful the company is on the market. A free of charge or interest-free loan supplied by a fund set aside for this purpose could be coupled with a preferential credit which would be extended by commercial banks interested in franchise.

The study has been prepared by

Édit Décsi, LOGISZTIKA Co.,

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István Kiss, DASY Co., and

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P.O. Box 446

Phone: 115-4619, fax: 135-9349

General secretary: István Kiss

List of consulting companies of the HUNGARIAN FRANCHISE ASSOCIATION

Name and address	Representative	Phone	Fax
CECC Középeurópai Tőkebefektetési Társaság (Central European Capital Investment Co.) 1054 Bp. Vértanúk tere 1	Agnes Király-Végi	111-6296	112-6414
CRAFT Kft (CRAFT Co.) 1035 Bp. Vihar u. 36.	Miklós Bornemisza	168-4845	
DASY Döntés- és Rendszerelemző Kft. (Decision-making and System Analyzing Co.) 1024 Bp. Margit krt. 15-17. IV em. 3 1536 Pf. 446	Istvan Kiss	115-4619	135-9349
DAZSI Franchise Kft., 7630 Pécs, Almos u. 3-5	Loránt Dobos	72/10-316	72/24-437
Dr. Egn Károly Ügyvédi Irodája (Dr. Karoly Egn's Lawyer's Bureau) 1053 Bp. Szép u. 2 1084 Bp. Pf. 100	Dr. Károly Egn	117-2280	117-9122
EastEuropeLaw Ltd. 1088 Bp. Rakóczi ut. 1-3.	Tamás Kovács	266-770/699	266-6360
ECONOMIX Rt. 1093 Bp. Fővám tér 8.	Gábor Gergely	117-0721	117-0327
H. I. T. Investcenter-Tradeinform 1053 Dorottya u. 4.	András Hirschler	118-6064	118-3732
HAY Menedzsment Tanácsadó Kft. (Management Consulting Co.) 1075 Bp. Madách tér 7	József Poor	142-6251	142-6251
INTERPRESS Kiállítások Kft. (Exhibitions Co.) 1075 Bp. Károly krt. 9 1364 Bp. Pf. 290	László Szászko	132-2790	132-7765
LOGISZTIKA Kft. 1132 Bp. Visegrádi u. 57	András Déri	120-2512	120-2512
Magyar Gazdasági Kamara Oktatási Központ Kft. (Hungarian Chamber of Commerce Training Center Co.) 1114 Bp. Villányi út 11-13.	(Sándor Nagy)	166-6588	166-7410
MARKET SYSTEM Franchise Rendszerteljesítő és Kereskedelmi Kft. (Franchise System Developing and Trading Co.) 6721 Szeged, Sőhordó u. 5 6701 Szeged Pf. 169	Istvan Kopasz	62/21-722	62/14-943
NOVOFER Rt. 1112 Bp. Hegyalja út 86	Peter Jamnk	166-8509	166-8509
OKTAV Ipari Továbbképző Vállalat (Industrial Professional Training Company) 2509 Esztergom, Wesselényi u. 35-39.	Gyula Paál	33/11-755	33/11-087
Országos Kereskedelmi és Hitelbank Rt. (National Trading and Credit Bank Co.) 1051 Bp. Arany János u. 24	Mária Udvardi	112-5200	
OTP Bank Rt. 1051 Bp. Október 6. u. 20.	Imre Gyuricza	132-2938	131-7109
SMASH Kft. 1035 Bp. Vihar u. 36.	Gábor Nevihostényi		
The Banhill Group/Bánhegyi 1146 Bp. Hermina u. 14.	Zsolt Bánhegyi	1-141-1340	
TRADEMARK Franchise és Marketing Konzultáns Kft. (Franchise and Marketing Consulting Co.) 1118 Bp. Szép u. 2.	Mihály Haraszti	117-8043	118-2846
TRENDSZER Bt. 1025 Bp. Torókvész út 95/a.	István Majoros	167-3204	
ZAREX Magyarország Kft. 1064 Bp. Szondi u. 34	János Sajó	111-9637	112-5400

TENDER ANNOUNCEMENT

In the framework of the decentralization privatization program permitted by the State Property Agency, the Füzesabony State Farm is selling, on the basis of an auction
on March 31, 1993, 10 a.m.,

- the following assets
- showroom and apartment house of a commercial unit.
 - store and workshop building.
 - old office building (center)
 - grain store for 400 wagons

Place of auction: the centre of the Füzesabony State Farm, Füzesabony-Pusztaszikszó.

Conditions to take part in the auction: the payment of earnest money equal to five percent of the bidding price of the asset to be purchased prior to the auction at the place of the auction in the cashier of the state farm

In the event of purchase, the sum of the security will be considered part of the payment

The workshop building is rented by an economic association

The approval of the State Property Agency is a condition of the validity of the sale and purchase contract to be concluded with the auction winner

Further detailed *information* is available at the Füzesabony State Farm or by phoning (39) 41-411 during office hours (from 9 a.m. to 3 p.m.)

The assets to be auctioned can be viewed during office hours by appointment

In questions not regulated in this auction announcement, the auction statutes of the State Property Agency are applicable

Planning Materials, Budapest Meeting
to be held June 21, 1993

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Major U.S. Franchisors To Meet with Hungarian Investors In Budapest, June 21

The largest group of American franchising companies ever to come to Central Europe will be in Budapest June 21, to meet with prospective Hungarian franchisees who are interested in obtaining the rights to bring American goods, services and franchising concepts to Hungary.

The day-long meeting is the culmination of a nine-month project sponsored by the U.S. Agency for International Development and EastEuropeLaw, a Budapest-based firm which specializes in international franchising. The purpose of the project has been to introduce franchising into Hungary; and is based on the belief that franchising, with its record of success elsewhere in the world, is an equally attractive opportunity for Hungarians.

Previous meetings, co-sponsored by banks and other groups, have sought to identify Hungarian entrepreneurs, companies, and privatizing enterprises which are candidates to become franchisees or "master licensees". A number have already been identified; but, subject to limitations of time and space, it is still possible for additional interested companies to arrange to meet with one or more of the American franchisors.

They include:

Arby's...Premier U.S. franchisor featuring fast food-roast beef and various other specialty sandwiches...Currently franchising in Canada, Mexico, Bahamas, Holland, Hong Kong, China, Japan, Kuwait, UAE, Curacao, Philippines, Puerto Rico, Thailand, Turkey, United Kingdom, Brazil.

Baskin-Robbins...World's largest franchisor of ice cream and frozen yogurt...A pioneer franchisor, starting in 1948...3,400+ franchises, from Memphis to Moscow.

FastFrame...A new home services concept...Franchising since 1987...168 franchised units offers custom framing in a chain of retail stores...Looking to expand in Europe, Mexico, New Zealand.

Future Kids...Fast-growing computer education franchise...Grown to over 100 units in 10 years...Targets children 5-13 in its chain of private learning centers.

I Can't Believe It's Yogurt...A frozen yogurt business which has grown to over 400 franchise owned stores...You find the familiar initials "ICBY" the world over...Franchising worldwide.

Rainbow International...On-location carpet and furniture dyeing and cleaning...Founded in 1981 and has grown to over 2,000 franchises

worldwide...Master Licenses sold in France, England, Canada, Guatemala, Ireland, Singapore, Taiwan, and Australia...Franchises operating in all these and The Bahamas, UK, Virgin Islands.

Sir Speedy...A totally franchised chain of business printers...Highest system-wide sales in industry for four years...885 units...Expanding into South America, Europe and the Pacific Rim.

Subway Sandwiches & Salads...Franchising since 1974...For seven years the world's fastest growing franchise...Over 7,000 units across the U.S. and in 10 other countries.

Ziebart...Detailing, accessories and automotive protection services...Franchising since 1962...628 units...Interested in overseas expansion...Already in 42 countries.

Other franchising companies are also expected. Those interested in participating in the June 21 meeting should make immediate contact with:

Tamas Kovacs

c/o EastEuropeLaw, Ltd.
East-West Business Center
Pf. 300/25
Rakoczi ut. 1-3
1088 Budapest, HUNGARY
Tele: 361-266-4979
Fax: 361-266-6360

or

Philip F. Zeidman, Esq.

c/o EastEuropeLaw, Ltd.
1401 New York Avenue, N.W.
Suite 900
Washington, D.C. 20005
Tele: 202-879-5730
Fax: 202-879-5773

Each participant will receive "Franchising", the first Hungarian book ever published on the subject, and Hungarian language materials on franchising prepared especially for this event. There is no charge to the participants.

Confirmation: June 21, 1993 Program

Categories	Sources	Called	Yes	No	Call Back Spoke	Call Back Didn't	Sent Letter	Sent Info	Sent Letter	Sent Info	Response Received	Translation	Translation Received	Final Company Info Recv'd	Request for Translator	Industry/Comments
	Ziebart	X	X				X	X	X	X	4/7/93	4/22/93	5/10/93	5/24/93	NO	Auto Service
	FastFrame	X		X			X	X	X	X						Household
	Sir Speedy	X		X			X	X	X	X						Bus Services
	ICBY	X	(?)	(?)			X	X	X	X	4/21/93	4/22/93	5/10/93	No mtrl rec.		Possible no show.
	Dwyer	X	X				X	X	X	X	4/20/93	5/24/93	TK handled.	5/24/93	YES (PAID)	J. Hayes to represent.
	Arby's	X	X				X	X	X	X	4/21/93	4/22/93	5/10/93	To send TK	YES	Food
	Futurekids	X	X				X	X	X	X	5/3/93	5/3/93	5/10/93	5/11/93	YES	Children
	Baskin-Robbins	X		X			X	X	X	X						Food
	Golden Corral	X		X												
	Snelling	X		X												
	Subway	X	X				X	X	X	X	4/20/93	4/22/93	5/10/93	5/11/93	No response as of 6/9/93	Food
	The Barbers	X	X				X	X	X	X	4/22/93	4/22/93	5/10/93	5/11/93	NO	
	Grossman	X			X		X	X	X	X						
	Balter	X		X			X	X	X	X						
	Simpson	X		X												
	Postal Annex	X				X										
	Nathan's	X			X			X								
	Kwik Kopy	X			X											
	Southland	X		X												

Confirmation: June 21, 1993 Program

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Categories	Sources	Called	Yes	No	Call Back		Send		Sent		Response Received	Translation Translation	Translation Received	Final Company Info Recv'd	Request for Translator	Industry/ Comments	
					Spoke	Didn't	Letter	Info	Letter	Info							
	Jani-King	X			X												
	Decorating Den	X	X					X	X	X	X	4/27/93	4/27/93	5/10/93	5/11/93	YES (Note O'Shea will not be at cocktail party will need to meet first thing 6/21).	Home Furnishings
	Ho-Lee-Chow	X				X											
	Sign Express																
	Athlete's Foot	X			X			X	X	X	X						
	Pizzeria Uno																
	PIP Printing																
	AAMCO	X		X				X	X	X	X						
	Mail Boxes Etc.	X		X				X	X	X	X						
	Pizza Inn																
	Gen. Nutri Corp	X			X												
	Wendy's	X		X				X	X	X	X						
	Leros																
	Magicals																
	Ponderosa	X		X				X	X	X	X						
	Dry Clean																
	Gymboree																
	King Bear			X				X	X	X	X						

Confirmation: June 21, 1993 Program

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Categories	Sources	Called	Yes	No	Call Back		Send		Sent		Response	Translation	Translation	Final Company	Request for	Industry/
					Spoke	Didn't	Letter	Info	Letter	Info	Received		Received	Info Recv'd	Translate	Comments
	Rented Temp															Ask Sibley to invite.
	Fantastic Sam's	X		X			X	X	X	X	4/26/93	4/26/93	5/10/93			Hair
	Roto Rooter			X			X	X	X	X						Household
	Domino's			X	X		X	X	X	X						
	Big Boy	X			X		X	X	X	X				KC sent TK 6/9 what we had.	NO	c/o Nancy Ghanem
	Lube on Wheels	X			X		X	X	X	X				NG to send TK	NO	"
	Rent A Wreck	X			X		X	X	X	X				NG to send TK	NO	"
	Perma Glaze	X			X		X	X	X	X				NG to send TK	NO	"
	Midas	X	X				X	X	X	X				To send TK directly.	Waiting a response.	All co. info to be sent directly-TK/Budapest
	Speedy Muffler King (Canada)		X				X	X	X	X	TK rec 6/8	TK will handle.	TK will handle.	TK rec. 6/8.	YES	All co. info to be sent directly-TK/Budapest

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March 31, 1993

(202) 879-5730

VIA TELEFAX

Mr. Don Dwyer, Jr.
The Dwyer Group
P.O. Box 3146
Waco, TX 76707

Dear Don:

This letter is to elaborate upon our recent conversation, confirming your company's participation in the EastEuropeLaw/ Agency for International Development Franchising Project, and in particular its presence at the June 21 meeting in Budapest. It is also to express my special pleasure in welcoming you.

The opportunity given to EastEuropeLaw by the Agency for International Development represented an unprecedented advance for franchising, and for the way in which the understanding of the process could be introduced and expanded in developing countries. As you know, the meeting on June 21 in Budapest that we discussed represents the culmination of this initial effort. I believe that in participating you are not only expanding the opportunities for your company, but also representing U.S. franchising itself in a positive and important fashion. Finally, I think it is likely that companies that do so will be approached earliest as other such opportunities develop in the years ahead.

Given the understandable uncertainty as to the number of those attending, the need for a certain amount of private space for one-on-one meetings, and the requirement for translation, the meeting itself will be held in a location separate from the EastEuropeLaw offices. As soon as our arrangements are complete as to location, times, arrangements for lunch, translators and other related details, I'll be back in touch. You can expect to hear from me by April 15, but since the June date is definite, you should go ahead and make your travel plans.

You may wish to stay on in Budapest after June 21, if the prospects that originate on the 21st warrant doing so. Tom Kovacs,

Franchising in Central and Eastern Europe: Hungary
A franchise project of EastEuropeLaw, Ltd.
Funded by the U.S. Agency for International Development

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March 31, 1993

Page 2

resident in the EEL Budapest office, will be available until June 25 to offer any assistance you might need. He will be spending several weeks after that in Washington should you wish to discuss matters further with either of us.

Finally, a reminder about the information about your company. I have enclosed an information form; if you will return it to me promptly I will see that it (or a shortened form, if necessary) is translated into Hungarian (at our expense, not yours) and made available at the Hungarian Franchise Exposition in Budapest May 12-14.

Again, many thanks, both personally and professionally, for your willingness to work with us to benefit U.S. franchising and franchising in developing countries.

Sincerely,



Philip F. Zeidman

cc: Tamas Kovacs

Enclosure

FSP:22050/22142:kc

P.S.: I gather we may have the pleasure of your Dad's participation, since he will be at the Essen meeting. As soon as you know, please advise me.

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Franchising in Central and Eastern Europe: Hungary
 A franchise project of EastEuropeLaw, Ltd.
 Funded by the U.S. Agency for International Development

FRANCHISOR DATA SHEET

Name of Company _____

Address _____

Telephone _____

Telefax _____

Brief description of business to be franchised: _____

Year founded: _____

Franchising since: _____

Number of company-owned units in the U.S.: _____

Number of franchised units in U.S.: _____

In the U.S.* Initial fee: _____

Royalty fee: _____

International franchising: _____

Year first non-U.S. franchise granted: _____

Countries in which franchise rights have been granted _____

(Please circle those in which units are operating).

Total number of units operating outside the U.S. _____

Do you grant --	In the U.S.		Outside the U.S.	
	Yes	No	Yes	No
Single-unit franchises	—	—	—	—
Territorial, multi-unit development franchising	—	—	—	—
"Master" (subfranchising rights)	—	—	—	—

Any other important information for the prospective Hungarian franchisee or master licensee: _____

* It is recognized that fee structure may be different outside the U.S., and may differ from country to country.



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May 6, 1993

(202) 879-5730

VIA TELEFAX

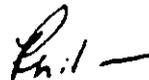
Ms. Kay Ainsley
Director of International Market
Development
Ziebart International Corporation
P.O. Box 1290
Detroit, MI 48007-1290

Dear Kay:

In connection with your company's attendance at the U.S. A.I.D.-EastEuropeLaw meeting with Hungarian investors on June 21 in Budapest, it occurred to me it would be useful if prospective investors had a chance to review some background information about your company. If you wish, please send via Federal Express a reasonably recent article or articles that you believe accurately profiles your company and/or a selection of your own marketing materials. Within limits, we may be able to have some of this material translated for review by interested investors prior to the meeting, and in any event will endeavor to make it available to them in English.

I continue to anticipate an unusual opportunity for franchising this June and look forward to your participation. We will be back in touch as soon as all the logistics are firm.

Sincerely,



Philip F. Zeidman

20471/20605:kc

Franchising in Central and Eastern Europe: Hungary
A franchise project of EastEuropeLaw, Ltd.
Funded by the U.S. Agency for International Development

-81-

Telephone Listing: Franchisors 6/21

FRANCHISORS	TELEPHONE #	FAX #
L. Gustafson Arby's	305-866-1904	305-866-0252
Joe Francis The Barbers	612-331-8500	612-331-2821
Neil O'Shea Decorating Den	301-652-6393	301-652-9017
Mike Mennehan Futurekids	310-337-7006	310-337-0803
J. Hayes D. Dwyer Rainbow International	215-540-0120 817-756-2122	215-540-9442 817-753-2909
Gilles Chauveau Martin Ciotti Speedy Car-X/King	312-693-1000	0113314-729-0868 312-693-0309
Kay Ainsley Ziebart	800-877-1312	313-588-0718

24931:kc

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Banking

EastEuropeLaw, Ltd., prepared, and had translated into Hungarian, information about U.S. banking and franchise finance for the U.S.A.I.D. training program, "Private Sector Development Strategies," November 10-13, 1993, in Budapest.

What Participants
Have Said

"The course has given me the tools which I feel are essential to be able to deal with financing a small business and the financial advice which small businesses need" Jamaica

"I would recommend this financial management seminar to all small business owners because it better equips us with the tools and skills required to overcome mismanagement" Papua New Guinea

"This seminar is very useful and I recommend each banker to attend it" Jordan

"This is the best workshop I have ever attended. I am really looking forward to more seminars of this sort or any others that MAS, Inc. has to offer" Solomon Islands

"I have attended many other courses but I found it - the best, and the printed material is really excellent and very useful" Kenya

"An excellent course and very helpful course. I like it. We have attended this course have benefited and hopefully will be able to secure loans from the banks" Morocco

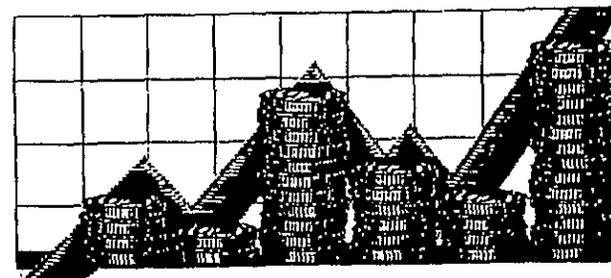
Management Advisory Services, Inc.

Management Advisory Service, Inc. (MAS) is the prime contractor of a Consortium that includes Inter-American Management Consulting Corporation (IMCC); and Development Alternatives, Inc. (DAI). MAS is a small business concern, founded in 1980 by former commercial bankers to provide financial training, consulting services, and financially related products to domestic and international bankers and small business owners. For ten years the company has maintained its commitment to both constituencies because it's our belief that *access to bank credit and other bank services is critical for the success of small businesses, and small business owners are an important market for banks and related financial institutions.*

MAS has conducted **1,600** seminars on financial management for over **50,000** business owners under the sponsorship of 120 banks and 30 trade associations. It has also trained over **10,000** bankers in financing the closely held business. MAS's technical approach centers on five major objectives:

- To encourage and support lending to small businesses in A.I.D. -assisted countries. To accomplish this, the business owner and lender must have a common understanding of business practices and be able to communicate effectively with one another.
- To utilize detailed and easy to understand training materials that rely heavily on a visual component.
- To provide "leave behind" materials that assist in refresher learning by the participant, and ensures practical application in their daily work.
- To assist lenders on evaluating the ability of businesses to repay debt and provide business owners with the tools to effectively manage their business. The training plan and materials are different for each audience, but the information is linked together to ensure better communication
- To provide top quality instruction.

PRIVATE SECTOR DEVELOPMENT STRATEGIES



TRAINING PROGRAMS for Bank/Credit Officers & Small Business Owners/Entrepreneurs

Sponsored by:
Agency for International Development

Presented by
Management Advisory Services, Inc.

85

A.I.D. BANK TRAINING PROGRAM

NOVEMBER 10 -13

LOCATION: POSTA BANK
XI., SZÜRET U. 15, BUDAPEST

LIST OF ATTENDEES

Budapest Bank Rt. (2)
Katalin Kismödiné Kis-Ferencz

Kereskedelmi Bank Rt. (3)
Monika Kerekes
Zsolt Kurdi
László Kontra

Corvin Bank (to be determined)

Dunabank Rt. (3)
Tamás Völgyi
Dóra Madarassy
Ottó Karácsony

Magyar Hitel Bank Rt. (3)
Maria Czifra
Gyöngyi Hajós
Csilla Heisz Madaras

Hungarian Foreign Trade Bank (3)
Katalin Szöllösi
Árpád Varga
Katalin Erben

Inter Europa Bank Limited (to be determined)
Ritar Nagy

OTP Bank (4)
Maria Redl
András Csermelyi

Posta Bank (6)
Éva Szabo Pákozdi
Tibor Halupka
Attila Kovács
István Tobias
Márta Györi
Róbert Bank

Other Guests

Ferenc Simon, Chemonics

Dr. Nándor Papp, International Training Center for Bankers Limited

Gerald Thompson, Budapest Bank Rt.

branch of the US Agency for International Development, supports the development of market economies and growth of private sector businesses throughout the world. With the assistance of USAID missions and other AID bureaus, the Office of Investment sponsors programs in small business development, financial sector development, privatization, business training, and regulatory reform, as well as other areas of private sector development.

The Office of Investment specializes in working with financial institutions in developing countries to encourage small business expansion and financial sector development through the provision of loans, guarantees, and training programs.

Interested parties are encouraged to contact the Office of Investment for information on the variety of development programs it sponsors.

FRANCHISING GUARANTEE PROGRAM

*For information on other
programs contact:*

Office of Investment
Agency for International
Development
Room 3208-NS
Washington, DC
20523-0086

Phone: (202) 647-9842
Fax: (202) 647-1805
Telex: 248379 AID UR

AID, an agency of the Government of the United States of America, administers a \$2.2 billion program in economic and humanitarian assistance in 80 countries.

*Office of Investment
Agency for International Development*

IFA Convention

Franchising in Developing Nations -- A.I.D. Programs for Assistance

A. Opening Remarks:

- How A.I.D. became involved in franchise-related programs
- Background of the PRE/I Loan Guarantee Program
- BZS development of criteria for evaluation of candidates for the PRE/I Loan Guarantee Program
- Mention franchisors selected thus far:
Alphagraphics, MicroAge, Fastsigns, Boxworks, Remax
[verify with Eastham]
- A.I.D. programs' emphasis on franchisors' economic and development impact on the host country's economy:
 - new and appropriate technology/service to local economy
 - integrity, reputation of franchisor, and ability to service local market
 - priority to business-related services, essential services
 - expansion of the small business sector
 - use of local materials; positive impact on balance of trade
 - employment generation
 - training in technical/business skills (e.g., marketing, management)
- Relation to other "franchise-related" programs receiving funding from A.I.D. (e.g., Deloitte)
- Introduction of Steve Eastham *(need bio)*

*insert at
draft #3*

B. Issues/Questions for discussion:

- How do interested franchisors access information re A.I.D. programs
- Major countries^{*} of operation; A.I.D. operations in Eastern Europe
- Recommendations for refinement of the A.I.D. program
- A.I.D. prospects re PRE/I loan program for 1992
- Interaction between A.I.D. and IFA re A.I.D. programs
- Utilize experience of SBA re small business lending techniques
- Promotion of contract and regulatory reform in host countries with regard to intellectual property rights, contract law; no specific franchise legislation required
- Identifying prospects in host countries for joint venture, master license, and franchise arrangements

* for list

The two following documents represent
EastEuropeLaw, Ltd.'s, cooperation with Hungarian financial
institutions over the course of the contract.

**The Franchisor and the Supplier: A Look
at Their Relationship in the Catering/Foodservice Industry**

3:30-3:50

What Does a Franchisor Expect From His Supplier?

James H. Amos
President
International Division
I Can't Believe It's Yogurt
Dallas, Texas, U.S.A.

3:50-4:15

What Does A Franchise System Expect From Its Suppliers?

Endre Fazekas
Director
McDonald's Hungary, Ltd.

A panel of McDonald's suppliers in Hungary

4:15-4:35

What Are the Finance Options for the Catering/Foodservice Industry?

Remarks by a representative of Agrobank. Rt.

4:35-4:45

Concluding Remarks

A Brief Overview of the Parties and Their Responsibilities in the Franchised Catering Sector:
Philip F. Zeidman, Esq.

4:45-5:00

Questions and Answers

Franchising: New Opportunities in a New Market

Budapest
January 26, 1993

Presented in part under the auspices of a grant from the U.S. Agency for International Development
"Franchising in Central and Eastern Europe: Hungary"

PROGRAM SPONSORS

EastEuropeLaw, Ltd.
East-West Business Center
Pf. 300/25
Rakoczi ut. 1-3
1088 Budapest, HUNGARY

Tele: 361-266-4979
Fax: 361-266-6360

OTP BANK
H-1051 Budapest
V., Nador u. 16.
HUNGARY

Tele: 361-269-1685
Fax: 361-132-0909

as

Franchising: New Opportunities in a New Market

9:00 a.m.

Introduction and Welcome

A. Government of the United States

1. The Honorable Charles H. Thomas, II, Ambassador of the United States
2. David Cowles, Director, U.S. Agency for International Development, Hungary

B. Representative of the Hungarian Government

1. Mr. Janos Both, State Property Agency

C. Introduction by the Sponsors

1. Representative of OTP
2. Philip F. Zeidman, Esq.
Co-Founder, EastEuropeLaw, Ltd.
Founder, Brownstein Zeidman and Lore*

9:45-10:30

An Overview of Franchising

Philip F. Zeidman

A. What Elements Define A Franchise?

B. Franchising's Economic Significance

1. In the United States
2. In International Markets

C. How Franchising Works In Practice

* A Professional Corporation

11:00-12:30

Different Perspectives on Franchising

A. The Hungarian Franchisor:

Mr. Forczek László
Fordan, Ltd.

B. The U.S. Franchisor Entering the Market

James H. Amos, Jr.
President, International Division
I Can't Believe It's Yogurt!
Dallas, Texas, U.S.A.

C. The Hungarian Master Franchisee:

Mr. Virágh Endréné
Fort Commercial Ltd.-Ceiling Doctor

D. The Hungarian Small Businessman

Representative, ECONOMIX

E. The Privatizing Company:

Dr. Sajó János
Zarex Hungary, Ltd.

F. The Hungarian Franchise Association:

Dr. Istvan Kiss
Secretary General

12:30-1:00

Questions and Answers

1:00-2:00

Lunch

2:00-2:30

Franchising and Privatization

Philip F. Zeidman

- A. **How Franchising Can Be Used as a Vehicle for Privatizing a State-Owned Enterprise**
- B. **The Franchising of Government Services: Special Opportunities for Municipalities**

2:30-3:45

Financing the Franchise

- A. **Hungarian Resources: Commercial Banks and Other Hungarian Sources**

Dr. Turán Attila
OTP Rt.

- B. **International Resources**

A panel composed of representatives of, or presentations regarding, organizations which have financed franchise operations in Hungary, or developed special programs for doing so. These will include:

- European Bank for Reconstruction and Development
- Hungarian-American Enterprise Fund
- Export-Import Bank of the United States
- U.S. Agency for International Development
- Others

3:45-4:00

Conclusion

Where do we go from here?

4:00-4:30

Questions and Answers

4:30-5:15

Sponsors' Closing Remarks

EastEuropeLaw, Ltd.

OTP BANK

LAG

MEMORANDUM

TO: Deloitte Files
FROM: Philip F. Zeidman
RE: Banking
DATE: July 27, 1993

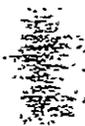
Addendum to banking file:

I had been asked to make a presentation on franchise finance to a banking seminar to be held in March, 1993, by the U.S. Agency for International Development. Early in March I was told that the meeting was canceled, and that I would be advised of any other future presentation.

fsp:wp:29484

99.

Corollary Materials



Franchising and the Foodservice/Catering Industry: Hungary

Budapest
January 27, 1993

Presented in part under the auspices of a grant from the U.S. Agency for International Development:
"Franchising in Central and Eastern Europe: Hungary"

PROGRAM SPONSORS

EastEuropeLaw, Ltd.
East-West Business Center
Pf. 300/25
Rakoczi ut. 1-3
1088 Budapest, HUNGARY

Tele: 361-266-4979
Fax: 361-266-6360

Agrobank
1126 Budapest
XII., Boszormenyi út 24

Tele: 361-155-2722
Fax: 361-155-4763

The Agrobank Conference

"Franchising and the Foodservice/Catering Industry: Hungary"

1:00 p.m.

Welcome and Greetings

Philip F. Zeidman, Esq.
Founding Principal, EastEuropeLaw, Ltd.
Founding Partner, Brownstein Zeidman and Lore*,
Washington, D.C., U.S.A.

Borosnyaine Czangar Judit
Deputy Director
Agrobank Rt. Budapest Regional Branch

1:30-2:30

A Look at the Franchise System in the Hungarian Foodservice/Catering Industry

Comment by a representative of the Hungarian Ministry of Agriculture

Comments by a group of experts in the Hungarian Catering/Foodservice Industry

2:30-3:15

**What is Franchising? How Has It Functioned in Market Economies?
How Does Franchising Support the Small Business Entrepreneur?
What Could Franchising Bring to the Catering Industry in Hungary?**

An overview of these and other franchise issues by
Philip F. Zeidman, Esq., EastEuropeLaw, Ltd.

3:15-3:30

Coffee

• A Professional Corporation

Mid-America: 1993 U.S. Ambassadors' Tour
of the American Heartland

Participation in program, May 3, 1993

CHICAGO, ILLINOIS

**1993 U.S. AMBASSADORS' TOUR
OF THE AMERICAN HEARTLAND**

*Update on Opportunities and Obstacles for
U.S. Business in Central and Eastern Europe*

**Monday, May 3, 1993
The Westin Hotel Chicago**

National Organizer

The Mid-America Committee for International Business
and Government Cooperation, Inc.

In Partnership With

U.S. Department of State
U.S. Department of Commerce/International Trade Administration
U.S. Agency for International Development

Local Sponsors

Waste Management, Inc.
IMCERA Group Inc./Pitman-Moore, Inc.

Local Patrons

A.T. Kearney, Inc.
CBI Industries, Inc.

Local Cooperating Organizations

- National Association of State Development Agencies
- Mid-America World Trade Center
- Chicago District Office, U.S. & Foreign Commercial Service, International Trade Administration, U.S. Department of Commerce
- International Business Division, Illinois Department of Commerce & Community Affairs
- Illinois World Trade Center Association
- Illinois District Export Council

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ADDITIONS TO SEMINAR AGENDA

- **HON. ADRIAN A. BASORA**, the United States Ambassador to the Czech Republic, will provide the keynote remarks during the luncheon session.
- **ROBERT E. NAVIN** with the Agency for International Development will also be participating in the Workshop Sessions covering *Agriculture and Agribusiness* and *Energy and the Environment*
- **RICHARD DINE**, representing the Czech and Slovak American Enterprise Funds, will participate in the Workshop Session covering *Financing and Insurance* during the first rotation this afternoon.
- **BONNIE J. NEUBECK**, Vice President with Norwest Bank, will participate in both rotations of *Financing and Insurance*

2.00-3:20

ROTATION I – WORKSHOP SESSIONS: CRITICAL ISSUES FOR BUSINESS

(Regents 1-4, Rex I)

Agriculture and Agribusiness

- Paul L. Daemen, President and Chief Executive Officer, Mid-America World Trade Center
- Thomas L. Farquer, Vice President-Legal Affairs and Secretary, Pitman-Moore, Inc.
- Hon. H. Kenneth Hill, Ambassador to Bulgaria

Manufacturing, Marketing and Distribution Channels

- Craig S. Atkins, Jr., Senior Commercial Officer, Romania
- Robert E. Brindley, President and Chief Executive Officer, Getz Bros. & Co., Inc.
- Hon. John R. Davis, Jr., Ambassador to Romania
- Gary L. Gallagher, Senior Commercial Officer, Hungary
- Hon. Charles H. Thomas, Ambassador to Hungary
- Philip F. Zeidman, Partner, Brownstein Zeidman and Lore; and Representative, EastEuropeLaw, Ltd.

Information Technology

- John Fogarasi, Senior Commercial Officer, Bulgaria
- Thomas M. Kelsey, Senior Commercial Officer, European Bank for Reconstruction and Development
- Nancy A. Wilson, Director of Business Development Support, Ameritech International

Financing and Insurance

- Mildred O. Callear, Vice President and Treasurer, Overseas Private Investment Corporation
- Hon. Mark M. Collins, Jr., Alternate Executive Director for the United States, The World Bank
- Hon. William G. Curran, U.S. Executive Director, European Bank for Reconstruction and Development
- Joseph C. Fleig, Senior Loan Officer, Export-Import Bank of the United States
- Jill Bezek Jones, Country Manager, Central, Eastern, and Southern Europe, Trade & Development Agency

Learning the Rules of the Road

- Hon. Adrian A. Basora, Ambassador to the Czech Republic
- Richard Dine, Senior Investment Officer, Czech and Slovak American Enterprise Funds
- Joan J. Edwards, Senior Commercial Officer, Poland
- Daniel E. Harris, Senior Commercial Officer, Czech Republic
- Frank C. Schroeder, Vice President-Corporate Development, Waste Management International
- Emma Zukowska, Manager, Arthur Andersen & Co.

3:20-3:30

Break

3:30-5:00

ROTATION II – WORKSHOP SESSIONS: CRITICAL ISSUES FOR BUSINESS

(Regents 1-4, Rex I)

Pharmaceuticals and Medical Technology

- Thomas L. Farquer, Vice President-Legal Affairs and Secretary, Pitman-Moore, Inc.
- Gary L. Gallagher, Senior Commercial Officer, Hungary
- Hon. Charles H. Thomas, Ambassador to Hungary

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Agenda-in-Brief

- 8:30 Registration (Ballroom Lobby)
- 9:00-9:15 *Welcome and Program Overview* (Oxford Room)
- Thomas H. Miner, Chairman, The Mid-America Committee
- 9:15-10:45 *OUTLOOK FOR AMERICAN BUSINESS. Political and Economic Trends in Central and Eastern Europe*
- U.S. Ambassadors:
- Hon. Adrian A. Basora, Ambassador to the Czech Republic
 - Hon. John R. Davis, Jr., Ambassador to Romania
 - Hon. H. Kenneth Hill, Ambassador to Bulgaria
 - Hon. Charles H. Thomas, Ambassador to Hungary
- Senior Commercial Officers:
- Craig S. Atkins, Jr., Senior Commercial Officer, Romania
 - Joan J. Edwards, Senior Commercial Officer, Poland
 - John Fogarasi, Senior Commercial Officer, Bulgaria
 - Gary L. Gallagher, Senior Commercial Officer, Hungary
 - Daniel E. Harris, Senior Commercial Officer, Czech Republic
- 10:45-11:00 Break
- 11:00-12:30 *ADDRESSING THE CRITICAL ISSUES: Assistance Programs to Promote and Support U.S. Business* (Oxford Room)
- Panel Moderator:*
- Charles A. Ford, Deputy Assistant Secretary for International Operations, Department of Commerce
- Discussion Leaders:*
- Stanley Bokota, District Director, International Trade Administration, U.S. & Foreign Commercial Service, U.S. Department of Commerce
 - Mildred O. Callear, Vice President and Treasurer, Overseas Private Investment Corporation
 - Hon. Mark M. Collins, Jr., Alternate Executive Director for the United States, The World Bank
 - Hon. William G. Curran, U.S. Executive Director, European Bank for Reconstruction and Development
 - Joseph C. Fleig, Senior Loan Officer, Export-Import Bank of the United States
 - Jill Bezek Jones, Country Manager, Central, Eastern and Southern Europe, Trade & Development Agency
 - Robert E. Navin, Chief, Trade and Investment Office, Bureau for Europe, Agency for International Development
 - Romuald J. Poplawski, Assistant Director, Illinois Department of Commerce and Community Affairs
 - Nancy L. Schiller, Managing Director, Bulgarian-American Enterprise Fund
- 12:30-1:45 *LUNCHEON – KEYNOTE ADDRESS: Keys to Business-Government Cooperation in Central and Eastern Europe* (Buckingham Room)

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Energy and the Environment

- Craig S. Atkins, Jr., Senior Commercial Officer, Romania
- Hon. John R. Davis, Jr., Ambassador to Romania
- John Fogarasi, Senior Commercial Officer, Bulgaria
- Hon. H. Kenneth Hill, Ambassador to Bulgaria
- Jill Bezek Jones, Country Manager, Central, Eastern, and Southern Europe, Trade & Development Agency
- Frank C. Schroeder, Vice President-Corporate Development, Waste Management International
- Steven M. Swanson, Ph.D., Principal, Sanders International, Inc.

Transportation & Construction

- Joan J. Edwards, Senior Commercial Officer, Poland
- Thomas M. Kelsey, Senior Commercial Officer, European Bank for Reconstruction and Development

Financing and Insurance

- Mildred O. Callear, Vice President and Treasurer, Overseas Private Investment Corporation
- Hon. Mark M. Collins, Jr., Alternate Executive Director for the United States, The World Bank
- Hon. William G. Curran, U.S. Executive Director, European Bank for Reconstruction and Development
- Joseph C. Fleig, Senior Loan Officer, Export-Import Bank of the United States

Learning the Rules of the Road

- Hon. Adrian A. Basora, Ambassador to the Czech Republic
- Robert E. Brindley, President and Chief Executive Officer, Getz Bros. & Co., Inc.
- Richard Dine, Senior Investment Officer, Czech and Slovak American Enterprise Funds
- Daniel E. Harris, Senior Commercial Officer, Czech Republic
- Philip F. Zeidman, Partner, Brownstein Zeidman and Lore; and Representative, EastEuropeLaw, Ltd.
- Emma Zukowska, Manager, Arthur Andersen & Co.

5:00-6:30

RECEPTION for seminar participants and discussion leaders (Buckingham Room)

**The International Center for Private Enterprise
in Developing Countries**

**Presentation to ICPE Meeting
Ljubljana, Slovenia
June 14-16, 1993**

"Franchising in Transitional Economies"

**THE INTERNATIONAL CENTER FOR PRIVATE ENTERPRISE
IN DEVELOPING COUNTRIES**

During the Tito regime, the United Nations and other international organizations, searching for a non-aligned country in the protracted Cold War, settled on Slovenia. Its capital, Ljubljana, became the site of a group of international bodies, both private and governmental, and of conferences where representatives of different cultures and political systems could come together safely. One of those organizations is the International Center For Private Enterprise in Developing Countries ("ICPE").

The ICPE today is an intergovernmental organization of 40 member states and 33 affiliate enterprises. Its primary goal is to assist enterprises in efficient management by promoting contemporary management thought and entrepreneurial behavior through research, training, consultancy and the dissemination of information.

The ICPE since 1990 has undertaken original and pioneering efforts to focus its energies on franchising -- initially in Asia and this year in Slovenia -- by convening two International Seminars on Franchising in Transitional Economies.

Because of EastEuropeLaw's efforts, under AID/Deloitte, in Hungary, the ICPE invited Mr. Zeidman to participate in the meeting in Slovenia. He did so shortly before the June 21 meeting in Budapest. The conference program and his paper, "International Franchising: The Central and Eastern European Experience" are included here as corollary products of the contract.

ICPE

International Center for Public Enterprises

International Seminar on
**FRANCHISING IN TRANSITIONAL
ECONOMIES**

Ljubljana, 14-16 June 1993

SEMINAR PROGRAMME

(Draft)

709

Monday, 14 June, Morning

8.00 - 9.00 Registration

9.00 - 9.25 Opening of the Seminar: Welcome addresses

9.30 - 9.45 Introduction of the Programme: I. Pavlin

9.45 - 10.30 European Franchising - C. Zimmer-Helou

- a. What is franchising, franchisor - franchisee relationship, franchise system;*
- b. European franchising. European models of franchising. Franchising-like arrangements, modalities of franchising. Management / entrepreneurial education on franchising in Europe. Legal protection of franchisors and franchisees in CEE countries. Western and domestic franchisors in CEE countries. (Presentation and discussion)*

10.30 - 10.45 Coffee Break

10.45 - 11.30 International Franchising Experience/Franchising & Privatisation- P. Zeidman

- a. International experience in franchising: franchising in different parts of the world: developed countries, transitional economies and developing world. Experience of USA franchisors in CEE countries: opportunities and threats;*
- b. The role of franchising as a vehicle for privatisation of state-owned enterprises (Presentation and discussion)*

11.30 - 12.00 Franchising as An Instrument of Business Transformation - Chong Li Choy

- a. Business format franchising and similar franchising-like arrangements as a development tool in transitional economies;*
- b. Transformation of business culture;*
- c. Examples of copycat entrepreneurs and cultural transformation from Singapore (Presentation and discussion)*

12.00 - 12.30 Franchising in Canada / Marketing and Franchising - T. Dwight

- a. Franchising in Canada: Conditions for development of franchising in Canada. USA spill over effect and cloning foreign franchises. Transferability of the Canadian experience to CEE countries;*
- b. Marketing and franchising in an emerging market economy: Franchising in an emerging market setting: an alternative to independent business formation. Master franchises versus own developed franchise systems. Franchisee selection. Assessing marketing strategy: flexibility and integrity of franchise model and assessing indigenous franchise potential. (Presentation and discussion)*

12.30 - 13.00 *Franchising in Austria/Export of domestic franchise systems- W. Frauenhuber*

- a. *Franchising in Austria, export franchising;*
- b. *Development of domestic franchise systems and export franchising, cases for Slovenia. (Presentation and discussion)*

13.00 - 13.15 *Opening of the exhibition of paintings by Š. Marflak*

13.15 - 14.00 *Lunch Break*

Monday, 14 June, Afternoon

14.15 - 14.45 *Franchising Opportunities and Privatisation in Slovenia - B. Pečenko (Presentation and discussion)*

14.45 - 15.30 *Franchise Systems in Slovenia - L. Kočar, M. Hude, J. Kastelic*

- a. *Sava Kranj (tyre factory),*
- b. *Case of domestic franchise system: Merkur (trading company),*
- c. *Inetrade. (Presentations and discussion)*

15.30 - 15.45 *Coffee Break*

15.45 - 16.15 *Franchising as a form of entrepreneurship development in Hungary - A. Tibor*

- a. *Franchising in Hungary - a snapshot;*
- b. *The franchise market: legal and economic conditions, the financial side, infrastructure;*
- c. *The players: franchisors, franchisees (the real and would-be);*
- d. *The direction and the pace of development;*
- e. *The special role of the Hungarian franchise association. (Presentation and discussion)*

16.15 - 16.45 *Hungarian Cases of Franchising. I Szucs, J. Telkes and G. Bognar*

- a. *Developing Local Franchise Systems: Case of Management Recruitment Firm - I. Szucs. The success story of a Hungarian recruitment firm, possibilities of transferring recruitment and human resources know-how to other CEE countries;*
- b. *Excellence in consulting: a semi - franchise structure to achieve high quality management consulting stronger in their marketing potential. Case of the network "Excellence group". (Presentation and discussion)*

16.45 - 17.15 *Franchising in Croatia, D. Mlikotin-Tomić*

Experience, practice, theory, cases, legal frame, problems. (Presentation and discussion)

19.00 *Reception at the Hotel Lev, Panorama Restaurant*

Tuesday June 15, Morning

9.00 - 10.15 Round table headed by a group of resource persons: Differences in franchising in Western Europe, North America and in Newly Industrialised Countries:

legal framework, franchising contract, franchisee - franchiser relationship, franchising-like arrangements, cloning of foreign franchise systems.

A group of resource persons and resource participants will be invited to form a panel group at the front table. Each of them will present a short statement on the topic and later other participants will interact with them in a facilitated plenary discussion.

10.15 - 10.30 Coffee Break

10.30 - 11.15 Case of Poland, J. Pijanowska, M.Z.Zandarowski

- 1. Franchising as a Step to Market Economy in Poland: Historical Outline;***
 - a. Legal aspects and explanation of basic terms related to franchising, adaptation to the EEC regulation;*
 - b. The examples of PEWEX and RUCH transformation with privatisation ;*
 - c. Problems and difficulties of Polish enterprises acting according to franchising in a period of economic transition.*

- 2. Franchising and Small Business Sector in Poland***
 - a. The role of small business and Polish reality of 90's;*
 - b. Franchising cooperation between Western capital and small Polish entrepreneurs;*
 - c. Franchising as an export opportunity for private firms: the case of A. Blikle bakery;*
 - d. Prospects/limits of franchising cooperation between western capital and Polish firms. (Presentations and discussion)*

11.15 - 11.45 The Bulgarian Experience in Franchising Business - N. Lukov, S.T.Petrova

- a. Implementation of franchising agreements in the public and private sectors: limits and possibilities for the implementation of franchising as a privatisation technique under the Bulgarian privatisation law and related regulations;*
- b. Needs and possible areas for the implementation of franchising systems in Bulgaria;*
- c. Franchising and development of small and medium sized enterprises after privatisation process has been completed. (Presentations and discussion)*

11.45 - 12.15 Entrepreneurship & Franchising in Rumania - C.A.Zbarciog-Faciu, I.Dumitriu

- a. Current situation with franchising in Rumania;*
- b. Legal framework;*
- c. Foreign investment in Rumania Dec.90 - Apr. 93: provenance of investment, the commercial companies with foreign investment;*
- d. Impeding and impelling forces for franchising;*

- e. *Franchising and franchising-similar systems in Rumania - cases: classical franchising; contract, original implementation of franchising systems in the transition period;*
- f. *Possibilities and expectations in this business field.*

12.15 - 13.00 Experience of other countries: Albania, Macedonia, Czech Republic, etc.

13.00 - 14.30 Lunch Break

14.30 - 15.15 Topic requested by participants, using the presence of resource participants: some alternatives:

- *Outstanding cases of franchising,*
- *Minimart case, Singapore,*
- *International offers,*
- *Cases of export franchises from CEE countries*

15.15 - 16.30 Group work (Groups A, B, C)

A Why Western or Far East franchise systems come to CEE countries. List the reasons and analyse them (moderator/rapporteur...):

- a. *why and who has come,*
- b. *why they would come,*
- c. *why they have not or would not come.*

B Domestic Franchise Systems (moderator/rapporteur...):

- a. *possible forms,*
- a. *advantages,*
- b. *shortcomings,*
- c. *legal and macroeconomic issues to be resolved,*
- d. *export perspectives of domestic franchise systems.*

C National franchise strategies

- a. *policy issues,*
- b. *legal and macroeconomic issues,*
- c. *sector specific issues,*
- d. *other issues,*

16.30 - 16.45 Coffee Break

16.45 - 17.30 Review and discussion of the results of group work

Evening free

Wednesday June 16, Morning

9.00 - 10.30 Group Work: Experience, Requirements and Prospects for Successful Development of Franchising in Transitional Economies

Group A

- a. legal, economic policy framework;*
- b. development of new domestic and imported franchising projects;*
- c. prospective sectors for franchising;*
- d. recruitment of franchisees - partners in transitional environments*
- e. financing of franchise development and operation.*

Group B

- a. economic, social and other development and spill-over effects of franchising:
 - o consumer benefits: availability, quality and price etc.;*
 - o production and service quality standards, transfer of know-how, technical and managerial skill and knowledge, enhanced productivity;*
 - o direct and indirect effects on employment generation;*
 - o market identification and development, entrepreneurship development;**
- b. entrepreneurship development and franchising in CEE countries: risk taking;*
- c. support systems for promotion and development of franchising business.*

Formulation of brief recommendations in groups and presentation of the recommendations:

10.30 - 10.45 Break

10.45 - 11.15 Presentation and discussion of recommendations

11.15 - 11.30 Referral service and clearing house arrangements at ICPE

11.30 - 11.45 Valedictory, closing of the seminar

12.00 Departure to the Lake Bled and lunch

International Franchising: The Central and Eastern European Experience

by

*Philip F. Zeidman*¹

Introduction

In 1955, the United States had two hamburger operations, one which was called McDonald's and the other White Castle. The latter was by far the better known. Between 1955 and 1985, White Castle grew through its own internal resources from 27 outlets to 167. McDonald's, which chose the franchise route, went from 1 unit to 8,278 units and became one of the most spectacular business successes in modern times.

Of course, this is an extreme example, and a broad range of factors contributed to the success of McDonald's. But it illustrates the undeniable fact that franchising permits businesses to grow much more rapidly than any other method of distribution. The relatively brief history of contemporary franchising, which dates, in general, from the years immediately following World War II, supports the conclusion reached by one U.S. futurist, who described franchising as "the most successful marketing concept ever created."

Franchising is a powerful vehicle for the marketing and distribution of goods and services. In the past 50 years, "business format" franchising has come to be the predominant type of franchising in the United States and in the more than 80 countries to which franchising has expanded.

In business format franchising, the originator of the business system - the franchisor - provides to the person who invests in the system - the franchisee - a complete business plan and assistance that includes training, know-how, the use of the system's trademark and signs, operations manuals, a standard architectural identity and advertising and marketing support.

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Franchising, then, is composed of three elements:

the franchisor the system the franchisee

The *franchisor* owns the trade name in the system; the *system* can expand rapidly because of the investment by the franchisees. The *franchisee* is the businessperson or investor who purchases, in effect, a prepackaged business concept that is operated under contract with the franchisor. The contract is the *franchise agreement*.

Franchising thus represents an alternative to the other channels of distribution available to a seller of goods and services: sale through his own, company-owned outlets; and sale to independent, unaffiliated retailers for resale.

Within the franchise concept a number of advantages accrue to franchisor and franchisee:

To the *franchisor*: ease of capital formation, through the initial investment by the franchisee; incremental income, usually in the form of royalty payments; relatively rapid expansion of the network; and a more motivated group of retail distributors.

To the *franchisee*: a degree of entrepreneurial autonomy; a proven concept, often with widespread recognition; and extensive training and ongoing supervision. Because each unit is held to a similar level of quality, there is an additional benefit to every member of the system.

This rather simple set of factors has had a dramatic impact on the economy in countries where franchising has developed. Consider the United States:

- Over one-third of all retailing is franchise-related.
- It is estimated that a new franchise opens every 17 minutes.
- There are approximately 3,000 franchise companies in the U.S., doing business in 60 different business sectors - much more than just fast food - with an estimated 521,215 outlets.
- Franchise sales in 1992 totaled \$758 billion dollars U.S., accounting for just over one-third of all U.S. retail sales.

- One out of seven persons in the U.S. work force either operates a franchise or works in one, according to *The New York Times*.
- The most conservative statistics show that the rate of success for a new franchisee during the first five years of doing business is at a minimum twice that of an independently owned small business. Some estimates are that the difference is closer to ten times.
- That greatly increased likelihood of success explains why banks and other financial institutions favor loans to and investments in franchise companies.
- Despite the renown of franchising's major companies, over half the U.S. membership of the International Franchise Association can be characterized as small businesses.

Over the last 25 years, franchising has developed in two directions, directions that are closely intertwined but not mirror images of each other: (1) domestic, i.e., U.S. franchising and (2) the growth and reach of franchising into dozens of international markets.

First, franchising has continued to grow, expand and change domestically, within the United States. What do "grow, expand, change" mean in this context?

- Although the public perception of franchising is tied to fast-food and a half-dozen well-known symbols, franchising encompasses over 60 business sectors, from automotive services to health and education systems to business services and home care.
- Franchising systems, which traditionally opened one by one, established units throughout a local market, then a state or a region to become, ultimately, a national chain, today expand both more rapidly and in different ways.
- Today many markets are saturated, with the result that franchise companies are seeking sites and locations they had previously bypassed or overlooked (and often "down-scaling" the standard unit to take advantage of these opportunities) --

- More modest urban or inner city locations; the use of drive-in or drive-throughs; smaller strip malls; military bases; school and hospital foodservice.
- A franchisor or a well-financed master licensee may expand a chain by a hundred or more units at one time by the purchase and conversion of some or all of the units of a less successful system.

Franchising maintains its dominance. In most successful systems the franchised outlets far outnumber those that are company-owned. But change permeates franchising:

1. There is a new type of franchisee, frequently a successful and experienced businessperson, who is rapidly supplanting the original "Mom 'n' Pop" investors.
2. There are new forms of doing business: joint ventures, area development agreements, subfranchising.

International Franchising

Over 20 years ago, the first U.S. franchisors looked abroad--initially to Canada and to Japan. Today most large U.S. systems have followed those international pioneers overseas. Many mid-sized companies are doing the same, and with the level of market saturation and price competition we now see in the U.S., almost every franchise company--not just U.S. based--is evaluating the overseas markets. A handful of non-U.S. companies are even testing the water in the highly regulated, complex and costly U.S. market.

Today franchising is well established in most developed countries and has at least a foothold in many less developed countries:

- Where change has wiped out command-type governments and new governments are encouraging entrepreneurialism: Hungary; Poland; Czechoslovakia.
- Where changes in the laws and regulations affecting franchising open new opportunities for franchising: Mexico.

- Where healthier economies have made U.S. companies more responsive and investors are capable of acting as joint venturers or master licensees: South Korea; Malaysia; Taiwan.
- Where franchising is seen as an agent for social change: South Africa.
- Where we are seeing the governments of countries not yet involved in franchising requesting information and/or studies of the potential for franchising in their countries: India; certain of the Newly Independent States outside of Russia.

Adapting the U.S. Franchise System to Other Markets

In many respects the differences between franchising in the U.S. and in the developed markets of Western Europe have to do with differences in the size of the market itself. But even taking into account the disparities in physical size, no country in Western Europe exhibits the diversity or proliferation of any system equal to that in the U.S. On the other hand, almost every country in the region has at least a handful of indigenous franchisors as well as the standard U.S. imports, and in some countries development is well advanced.

Most observers agree that successful systems often have to fine-tune their operations to enhance system attractiveness to a non-U.S. culture. As two U.S. academics have written:

Even simple modification to a franchise concept can significantly increase costs. One of the major strengths of franchising is the uniformity of the system. Monitoring costs are minimized because standards are constant. This allows data to be collected from the various outlets and compared with system averages. Deviations signal implementation variance. When the concept must be changed to comply with local tastes, these standards no longer apply and monitoring becomes customized for each market, with a commensurate increase in cost.²

² Kaufmann, Patrick and Leibenstein, Harvey, "International Business Format Franchising and Retail Entrepreneurship", Reprint Series, Harvard University Graduate School of Business Administration, 1989.

The Choice of a Partner

In Europe and in every market outside the U.S., for reasons that should be apparent, the choice of a partner is the most difficult and critical decision a franchisor must make. The brief comments that follow apply to each and every country under discussion, and to every franchise system, whatever its origin or size.

As one franchise expert has said, "It's axiomatic that the most important decision a franchisor can make is the choice of his partner." This is true at home and abroad, and it may well be the difference between success and failure of the relationship. What do franchisors seek in their foreign partners? In general, American franchisors look for the following in their master licensees:

- knowledge of the target market for expansion;
- familiarity with local laws and regulations and, for some franchises, real-estate opportunities;
- contacts with potential suppliers and/or customers;
- language capabilities to avoid cultural barriers; and
- the willingness to accept guidance from the franchisor.

In addition, the master licensee must have the financial wherewithal to market and sell franchises locally and support the franchisees, who in turn typically pay a fee and an ongoing royalty. The master licensee usually shares a small percentage of the royalty with the original franchisor, who continues to provide support to the foreign partner.

The Franchise Experience in Eastern Europe

The overriding points to make about franchising in Eastern Europe are (a) the somewhat surprising fact that it exists at all, (b) that it is growing and (c) that, remarkably, it emerged as early as it did. (In fact, McDonald's, Alphagraphics and Baskin-Robbins opened in Moscow well in advance of the region's political and social changes; and have been joined by other systems since that time.)

The huge, global franchisors with an enormous stake in international franchising took advantage of the new markets almost immediately.

The West German McDonald's operation, a subsidiary of McDonald's Canada, developed units in Leipzig, in the East, with plans for about 19 additional units by 1995. The company opened in Budapest in 1988 through a joint venture with Babolna, an agricultural group; and McDonald's was one of the first franchisors to open units in cities in Hungary beside Budapest. In March 1992 the chain opened in Prague.

Burger King has also made a strong showing in Eastern Europe, doing business in the former East Germany, in the Czech Republic, in Hungary—in a joint venture with Pannonia, the largest hotel/restaurant chain in Hungary—and in Poland. Pizza Hut opened in Hungary in 1992, operating as Pizza Systems. MicroAge, a computer franchise, and Alphagraphics, as well as Pizza Hut and McDonald's, opened, to considerable fanfare, in Moscow, prior to the shift to a market economy.³

The second-tier companies, with a few exceptions, have held back, assessing the situation but uncertain about the immediate environment. Certainly obstacles abound...but we are daily seeing evidence of interest by smaller franchisors.

For several, interrelated reasons, it has been the major U.S. foodservice companies that opened the market. Foodservice traditionally has been the cutting edge of franchising. Those are the companies that have the greatest international experience, in terms of years, number of units, numbers of countries. They are most able to bankroll such investments, attract the best investors (with names recognized world-wide and an equally recognized record of success), assume the risk and afford whatever wait is required - within reason - for the new market to return a profit. (Most franchise-watchers know the lengths to which McDonald's will go once it has decided to enter a market -- instructing, for instance, farmers on how to grow the russet potatoes required for its french fries.)

What can we say to date about franchising in Central and Eastern Europe? In general, the pace of franchising varies from country to country. While the original economic studies ranked Poland and Hungary as odds-on favorites, with Czechoslovakia just behind and the USSR almost out of the running, the current picture is somewhat different. Political problems in particular have slowed Poland's changeover to a free market and made investment, in franchising or otherwise, complex and slow. There has been some franchise activity in Poland, of course; and more is surely on the way, but the

³ See, generally, Tyler, "International Franchising as a Marketing Mechanism for Entry into Eastern Europe," 1992, unpublished.

Czech Republic is now roughly on a par with Poland in terms of consideration for franchise investment. There is some interest in the former East Germany (with West German franchisors, of course, very active); and even some in the NIS. But of all the former Eastern Bloc countries, Hungary is currently the most attractive for foreign franchisors. For a number of reasons, a closer look at franchising in Hungary may serve as a basis for what we can expect elsewhere in the region.

Franchising in Hungary

First, a quick summary:

<i>U.S. Franchisors Doing Business in Hungary*</i>	
Alphagraphic	Hilton, Inter-Continental, Hyatt Marriott
Avis, Budget and other car rental companies	International Dairy Queen
Burger King	Kentucky Fried Chicken
Ceiling Doctor	McDonald's
Computerland	MicroAge
Dunkin' Donut	Pizza Hut
*Source: Hungarian Franchise Association	

In addition to the well-known Western franchisors entering the Hungarian market, indigenous franchisors are also beginning to spring up. For example, City Grill, a local "fast food" restaurant chain, is in the process of selling franchises to local investors. Intellrobot, a private Hungarian company that imports computers and electronics from Taiwan, received over 300 applications for franchises, mainly from private shop owners. The recent Second Hungarian Franchise Exposition attracted both more exhibitors and more prospective franchisees than the first effort.

The Hungarian government has expressed an interest in the applicability of franchising for privatization and the restructuring of certain state-owned enterprises. The State Property Agency has suggested, in various bid proposal materials, that prospective purchasers may wish to consider franchise methods in restructuring these companies. (For a more detailed discussion, see "Franchising and Privatization", below.)

Franchising in Central and Eastern Europe: Advantages, Disadvantages

It is difficult to contrast the status of franchising in the countries of Central and Eastern Europe as opposed to that in the so-called developing countries. If one measures progress by numbers alone, or units planned by 1995, the regional totals in Central and

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Eastern Europe may equal those in slower moving markets or less developed countries, even where franchising has a longer history.

Consider, for example, Latin America. Some nations are characterized as LDC's, some as developed economies. A number of companies have been active there for quite a few years, principally in Brazil and Argentina. For a range of reasons too complex to discuss in a paper of this length, franchising has expanded slowly, particularly outside these two countries. Until a few years ago only Brazil had established an active national franchise association. By contrast, a parallel development occurred in Hungary within two years of the change in government, and by June 1993 the Hungarian Franchise Association had 30 members; in a country where franchising had barely a foothold five years ago, this is a notable achievement.

My own view is that franchising's development has been accelerated in Eastern Europe over the last three years by the pent-up demand for all types of consumer goods. The relatively high prices for franchised products, economic and political uncertainty, and modest or minimal discretionary income may be comparable between Eastern Europe and the LDC's. The sharp challenge of change, however, stimulated the expansion of franchising into Central and Eastern Europe. The slower pace of change in countries throughout Africa and much of Latin America remains a barrier to the exuberant expansion that has characterized the history of franchising over the last 50 years.

In Eastern Europe, however, there are some special reasons which seem to me to augur well for the future of franchising. Certainly it must be a pleasure for consumers to have access to those long-absent icons of the West--jeans and hamburgers, fried chicken and pizza. But the chain stores offer something more than the satisfaction of a long-denied consumerism. Franchising and other service businesses per se bring longer-term, more substantial benefits to these new markets. Experience has shown that franchising is:

- A significant generator of employment;
- A relatively simple vehicle to attract foreign investment at a lower risk in a difficult market;
- A spur to rapid expansion;
- A speedy, low-cost method to transfer know-how, technology, training and management skills;

- A complete system of doing business that is immediately available to master licensees and their franchisees;
- A vehicle that joins new franchises, such as a privatized hotel system, to similar systems worldwide, bringing the benefits and improvements made throughout a system to the newly privatized company.

Obstacles to Success

The major hurdles companies have to overcome to establish franchises in Eastern Europe, in my experience, are the following:

- ***Finding an appropriate partner.*** This may be the most critical--and the most difficult--task. The Communist system discouraged personal qualities essential to making a franchise work. Finding an appropriate partner with capital is even harder. This shortcoming explains the somewhat more common use of a joint venture structure for franchises (as opposed to direct franchises granted to independent owners), which involves the franchisor's financial participation, at least at the outset.
- ***Working with the present distribution system.*** I have not found distribution to be as severe a problem as many people think; inefficiencies will ultimately be corrected. The problem is that we are typically dealing with a 'primitive' system, not a historically protective one such as Japan's.
- ***Securing clear title to real estate.*** It is important that property rights are ensured, especially when foreign franchisors finance or provide security for purchases or leases. For many investors the key question is, "How do I know that the person I'm buying the property from really owns it?" In many East European countries investors are already able to obtain clear title to property--or they soon will be as deadlines pass for other claims to be asserted. In addition, laws are being passed permitting foreign ownership of property.
- ***Converting currency and repatriating profits.*** These obstacles to investment are likely to impede foreign franchisors in the near term as countries make varying degrees of progress in removing them. In the meantime, franchisors should examine each country individually and, if possible, consider countertrade arrangements. Some companies are looking

only at new locations where they can sell for hard currency. In most instances, however, I believe this is a temporary problem.

- ***Guarding intellectual property.*** Protecting trademarks, trade names, copyrights, patents and know-how is crucial to a franchise system. Most of the countries in Eastern Europe are signatories to the principal international intellectual property agreements, but they do not typically have well-established systems for enforcing intellectual property rights, including judicial remedies for infringement. Thus, at this point there remains an uncomfortable air of uncertainty about what will happen when infringement cases reach the courts.
- ***Financing the operation.*** Lack of capital is one of the most serious problems foreign investors face. Borrowing from local banks and other institutions isn't practical, as local interest rates are in a range beyond the consideration of those accustomed to interest rates in the U.S. and in other developed countries. The overall situation will certainly improve as more commercial banks from such countries as Germany and the Netherlands expand further in Eastern Europe.

Governmental Assistance to Franchising in Eastern Europe

Another recent development is the participation of various international organizations in the financing of franchise operations. These include the European Bank for Reconstruction and Development, as well as such entities as the Hungarian-American Enterprise Fund (established specifically to make loans to small businesses in Hungary) and similar organizations in Poland and the Czech Republic and elsewhere. The recent entrance of significant funding from such organizations as PHARE⁴ and from Japan, has the potential of dramatically increasing sources of capital for franchise expansion.

From the U.S. perspective, the appearance of U.S. franchise companies represents one very direct form of assistance to the Eastern European economy. It is supplemented in various ways by more formal government-to-government assistance, with the major role being played by the U.S. Agency for International Development ("A.I.D.")

⁴ The European Community's economic and technological assistance to the former USSR and COMECON countries.

Whatever the size of a company--from a techno-giant to a retail chain with a handful of units--credit is critical. Recognizing this, A.I.D. initially developed several approaches to assist in this area. But to date, despite considerable effort, the A.I.D. credit programs have fallen short of their goals and are on hold for the present. The principal effort, to give just one instance, was a range of guarantee programs under a Private Sector Program authorized by the U.S. Congress in 1983. Although there is no new program activity, A.I.D. still manages a portfolio of loan guarantees implemented earlier; one of these was to a U.S. franchisor.

Some success may result from a short-term effort to address the credit barrier. Late in 1992, A.I.D. sponsored a sophisticated training seminar for Hungarian bankers. At that meeting, 30 bankers representing 10 Hungarian banks were exposed to an intensive immersion in credit practices. The willingness of bankers to fund new entrepreneurs, including both franchisors and franchisees, could be an important spur to a credit economy.

In a similar vein, A.I.D. recently provided a grant to EastEuropeLaw, Ltd., Budapest (a consortium of U.S. and British firms committed to the development of franchising in Central and Eastern Europe) to promote franchising in Hungary. The grant represents the first time any governmental agency in the United States has funded a program supporting franchising--in the U.S. or elsewhere. It is a signal of A.I.D.'s understanding that franchising has particular strengths it can offer to Hungary and other economies in the region: that franchising can be a tool both for the development of indigenous Hungarian companies, the expansion of their businesses and for the privatization of state-owned enterprises through franchising.

The venture has three principal goals:

1. To improve the understanding of franchising by governmental and business interests in Hungary, to assist in the development of locally-based franchising and to show the advantages franchising can bring to the small business sector and to privatization.
2. To communicate information about the Hungarian market for franchising throughout the U.S. franchise community and to interest specific U.S. franchise companies in expansion into the Hungarian market.
3. To broaden the understanding by U.S. and Hungarian financial institutions of the opportunities available in financing investment in franchising in Hungary.

Activities under the A.I.D. grant thus represented an inverted triangle: at the top a broad outreach to business and government to educate those sectors about franchising and its benefits to changing and developing economies; at its narrowest point, individual meetings between U.S. franchisors and Hungarian business-persons to effect completed transactions.

Meetings co-sponsored by two important Hungarian banks were important elements of the initial, broad-based effort. A parallel effort to underscore the potential of the Hungarian market for U.S. franchisors included a presentation, "Franchising in Hungary," by the Secretary General of the Hungarian Franchise Association at the 1993 national convention of the International Franchise Association. In April 1993 the Hungarian Franchise Association extended this effort through its participation in the second annual International Franchise Exposition in Washington.

As the triangle narrows, a final set of activities is taking place. From March through early June 1993, the members of EEL carrying out the grant program focused their energies on a unique event to be held in Budapest June 21. The all-day meeting between U.S. franchisors (some 10 major and mid-sized companies) and prospective Hungarian investors will be an unusual opportunity for all parties to meet on a one-to-one basis with, hopefully, the outcome a number of completed transactions over the coming months. By then it should be possible to evaluate how closely the goals for the A.I.D. project have been met--and whether their impact in Hungary would support the project's replication in Czechoslovakia or in Poland or even the NIS.

Franchising and Privatization

Privatization today, very much like franchising, is a world-wide phenomenon, in countries as disparate and distant as Brazil and Malaysia, Hungary and the Philippines. What we are beginning to see is an understanding, in a number of countries, of the ways franchising strengthens and complements privatization.

The data is still preliminary. For example, the franchising of health clinics and the telephone system is in progress in Brazil. The largest and most publicized developments are taking place in Great Britain, where there are blueprints to privatize and franchise elements of the postal service, and plans are well along--and vigorously being debated--to franchise the railroads.

A close analysis of franchising reveals that many of its particular strengths address the objectives (or difficulties) of privatization.

Privatization, standing alone, does not:

1. Solve increased or excessive unemployment or underemployment.
2. Increase the number of new businesses.
3. Increase the number of small businesses or spur or train small-to-mid-sized entrepreneurs.
4. Guarantee the provision of basic management skills and training needed in particular by mid-level managers.⁵
5. Improve the quality, appearance, efficiency or profit of the privatized entity, whether factory, restaurant or hotel.
6. Create private enterprises able to provide goods and services in quantity and quality adequate to meet local needs.
7. Overcome the potential for stagnation or "gridlock," due to the enormity of the task.
8. Address the worker's need for ownership.
9. Transcend entrenched interests (often perceived to be receiving a greater share of the economic good than others).
10. Address the perception of foreign capital as an outside force that can increase nationalist sentiment, further slowing the pace of private market growth.
11. Create a growing, increasingly prosperous economy that can compete in international markets.

⁵ Every study of developing and changing economies, particularly in Central and Eastern Europe and the NIS, pinpoints the absence of trained middle managers as a critical lack in the move toward a market economy.

But franchising by its inherent characteristics can respond to the tensions inherent in privatization:

While encouraging the independent ownership of small businesses, franchising provides privately-owned and centrally-controlled support systems. It simultaneously offers the advantages of both system-wide support and independent ownership: the franchisor provides the central control and support, while the franchisee benefits from ownership of the franchise unit and the entrepreneurial experience.

Franchising encourages the growth of small businesses and increases their prospects for survival by providing the franchisee with training, shared marketing plans, purchasing, and other services. By creating a privately-owned distribution network, franchising surmounts the inefficient distribution typical of state-owned enterprises.

Privatization by means of franchising reduces the need for the relatively large amounts of investment that are typically required for the purchase of most state-owned enterprises. By creating a chain of independently-owned businesses, franchising decreases the total investment costs for any one investor. These smaller business units are more affordable to such investors, who could include former employees and managers. The conversion of existing enterprises into a franchise network, in addition, may maintain existing state-owned businesses, thereby minimizing additional unemployment. Furthermore, the rapidity with which small businesses may be added or converted to a franchise network (the multiplier effect) facilitates the process of privatization.

Conclusion

Two paths, complementary but not entirely parallel, then, seem to represent the directions franchising might take over the next decade. First, and most evident in part because of its familiarity, will be the expansion of international business format franchising, as in the past, with the major and mid-sized chains as well as new young companies entering established markets--like Japan and Australia--and less expectable ones such as Poland or Latvia. (Whether or not we are achieving--or even close to achieving--a global market that encompasses securitization as well as technology transfer, we are certainly experiencing the internationalization of retailing, which encompasses franchising.) As a corollary to this development, in the best of circumstances we will see healthy competition for U.S. franchisors from a growing set of franchisors indigenous to the newer markets.

The second direction franchising could take in Eastern Europe and in a dozen other countries around the world is in applying its structure and its procedures, its strengths and its systems, to privatization. It is far too soon to be certain how successful franchise experts will be in explaining this prospect to governments. It is a prospect that carries with it a promising expansion of the definition of franchising to encompass, essentially, the franchising of government services. Should that occur over the next decade, we could see, in Central and Eastern Europe and in other developing or changing economies, a new dimension of international franchising that could contribute to and strengthen the public and the private sector alike.

C.F.

Tóth Attila
igazgatóhelyettes
Állami Vagyonügynökség
Budapest

Washington, D.C., 1993.5.10

Tisztelt Tóth Ur!

Már néhány hónapja annak, hogy találkoztam a Vagyonügynökség képviselőivel és a PRIMAN csoport tagjaival. Mindkét találkozó igen tanulságos volt számomra, s remélem valamennyi résztvevő számára. Bizonyosan Ön is egyetért velem, hogy a privatizációban a franchise nyújtotta lehetőségek feltárására tett kezdeti erőfeszítések nem fulladhatnak kudarcba a téglenség miatt.

Ez okból szeretném tájékoztatni arról a tevékenységről, melyet mi folytatunk a Nemzetközi Fejlesztési Ügynökséggel (AID) megkötött szerződésünk keretében, s felvázolnám, milyen feladatot vállalhatna a Vagyonügynökség magára. Szíves tájékoztatására közlöm, hogy május 12-14, valamint június 17-21 között Budapesten tartózkodom. Nagy örömmre szolgálna, ha valamelyik, illetve mindkét alkalommal találkozhatnék Önnel, amennyiben Ön is hasznosnak tartja.

Májusban a Magyar Franchise Kiállítást látogatom meg Budapesten. Júniusban, mikor visszatérek, 21-én egy egynapos találkozót tartunk, amely betetőzése az AID által támogatott projektjeink sorának. E találkozó célja, hogy összehozza az amerikai franchise átadókat magyar befektetőkkel, akik mester-franchise, illetve néhány esetben egyedi franchise jogok megvétele iránt érdeklődnek. A legkiválóbb amerikai franchise átadókból álló delegáció lesz velünk júniusban. (Levelemhez csatoltam egy listát, amely rövid leírást ad róluk.)

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Két különböző lehetőség képzelhető el:

Először is úgy tűnik számomra, hogy a Vagyonügynökségnek előnye származhat abból, ha tájékoztatja a még állami tulajdonban levő, megfelelő vállalatokat a június 21-i találkozóról. (Például azokat, amelyek az amerikai franchise átadók üzletágában tevékenykednek, illetve azokat, amelyek általában a legalkalmasabbaknak tekinthetők a franchise-ra.) Lehetnek igen kiváló cégek, amelyek eljőnnének a találkozóra, és én hiszek abban, hogy az Önök javaslata sokat nyomna a latban.

Másodszor a privatizáció folyamata felgyorsulhatna azáltal, hogy a PRIMAN tanácsadók tájékoztathatnák ügyfeleiket a júniusi találkozó nyújtotta lehetőségekről, s az érdeklődőket meghívhatnák erre az eseményre. Ahogy a januári találkozónk is feltárta, a franchise számos vállalat számára jelenthet technikai megoldást.

Amennyiben részletesebben kíván e témáról beszélgetni, feltétlenül szakítok időt, hogy találkozzam Önnel májusban. Örömmel bocsátok akkor rendelkezésére további anyagokat a franchise-ról és a privatizációról, ez hasznos áttekintést adhat mindkét vállalatcsoportnak, akiket meg lehetne hívni a június 21-i találkozóra. Emellett budapesti irodánkban Kovács Tamás bármikor készséggel áll rendelkezésére ez ügyben.

Érdeklődéssel várom mielőbbi válaszát, különös tekintettel arra a jövőbeli lehetőségre vonatkozóan, hogy vállalatcsoportokkal találkozhassunk a Vagyonügynökségnél, és hogy a júniusi találkozón Önök által szervezett vállalatokat is üdvözölhessünk. E napnak a célja bizonyos mértékig a "párkeresés" amerikai franchise átadók és magyar vállalatok, illetve befektetők között. Remélem, az Állami Vagyonügynökség csatlakozik hozzánk ebben az egyedülálló vállalkozásban.

Szívélyes üdvözlettel,

Philip F. Zeidman

Melléklet!

cc: Dr.Csepi Lajos
Kovács Tamás

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A legjelentősebb amerikai franchise átadók találkozója magyar befektetőkkel június 21-én, Budapesten

Amerikai franchise rendszerek képviselőiből álló csoport látogat Budapestre június 21-én, hogy találkozzon esetleges magyar átvevővel, akik amerikai áruk, szolgáltatások magyarországi franchise jogainak megszerzése iránt érdeklődnek. Ez lesz a legnagyobb amerikai franchise delegáció, amely valaha is Közép-Európába látogatott.

Az egy napos találkozó a csúcspontja annak a kilenc hónapos projektnek, amelyet az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID) és az EastEurope Law, a nemzetközi franchise-ra specializálódott, budapesti székhelyű nemzetközi cég szponzorál. A projekt célja a franchise bevezetése Magyarországon; abban a biztos hitben, hogy a franchise, amely szerte a világon sorra dönti a sikerrekordokat, a magyarok számára is éppily vonzó lehetőség lesz.

Az előző találkozók, melyeket bankok és egyéb csoportok is szponzoráltak, azoknak a magyar vállalkozóknak, vállalkozásoknak és privatizálandó vállalatoknak a kiválasztását célozták, amelyek alkalmasak lennének franchise átvevőknek vagy mesterlicenc-átvevőknek. Számos vállalat már kiválasztásra került, de a rendelkezésre álló idő és hely korlátai között további érdeklődő vállalatok is találkozhatnak egy vagy akár több amerikai franchise átadóval.

Az amerikai franchise átadók:

Arby's... Vezető amerikai franchise rendszergazda, amely gyorsétkeztető hálózatában marhasültet és különféle szendvics specialitásokat kínál. Franchise rendszere sikerrel működik Kanadában, Mexikóban, a Bahamákon, Hollandiában, Hong-Kongban, Kínában, Kuvaitban, az Egyesült Arab Emirátusokban, Curacóban, a Fülöp-szigeteken, Puerto Ricóban, Thaiföldön, Törökországban, az Egyesült Királyságban és Braziliában.

Baskin-Robbins... A fagyalt és joghurt-fagyalt legnagyobb franchise átadója a világon...Az legrégebb franchise rendszerek közé tartozik, 1948 óta működik...Több, mint 3400 franchise átvevője van világszerte, Memphis-től Moszkváig.

Fast Frame...Egy új szolgáltatási koncepció az otthonukat szépítőknél...1987 óta működik...168 franchise üzletből álló hálózata sikerrel kínálja képeretelési szolgáltatásait Amerikában...Rendszerét Európában, Mexikóban és Új-Zélandon is szeretné elterjeszteni.

Future Kids...Gyorsan növekvő számítógépes oktatási rendszer...Tíz év alatt 100 üzletből álló hálózata alakult ki...Szolgáltatásait elsősorban 5-13 éves gyermekeknek ajánlja privát oktatási központok formájában.

I Can't Believe It's Yoghurt...Több, mint 400 franchise üzletből álló joghurt-fagylalt hálózat...A világon mindenütt találkozhatunk a jól ismert "ICBY" rövidítéssel...Világszerte működteti franchise rendszerét.

Rainbow International...Szőnyeg- és függönyfestést, -tisztítást végez helyben...Az 1981-ben alapított cégnek ma kétezren felüli franchise átvevője van a világ minden részén...Mester-franchise jogot adott el Franciaországban, Angliában, Kanadában, Guatemalában, Írországban, Szingapurbán, Taivanban és Ausztráliában...Egyedi franchise jogot a Bahamákon, az Egyesült Királyságban és a Virgin Szigeteken.

Sir Speedy...Nyomdai szolgáltatásokra szakosodott, kizárólag franchise formában üzemelő üzletlánc...Négy év óta a legmagasabb értékesítési rátával dolgozik az üzletágában...885 egysége üzemel...Terjeszkedésének célpontjai Dél-Amerika, Európa és a Csendes-óceáni térség.

Subway Sandwiches & Salads...1974 óta működik franchise formában...Hét év óta a világ leggyorsabban növekvő franchise rendszere...Több, mint 7000 egysége üzemel Amerikában és a világ 10 másik országában.

Ziebart...Autótartozékok és autóvédelmi szolgáltatások...1962 óta működteti franchise rendszerét...628 egysége üzemel...Érdekel a tengerentúli terjeszkedésben...Már 42 országban vannak kapcsolatai.

A fentiek mellett még további franchise cégek csatlakozása várható. Mindazok, akik érdeklődnek a június 21-én megrendezésre kerülő találkozó iránt, mielőbb vegyék fel a kapcsolatot a következő személyekkel:

Kovács Tamás
EastEurope Law, Ltd.
East-West Business Center
1088 Budapest
Rákóczi út 1-3.
Pf. 300/25
Telefon: 361-266-4979
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vagy

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Valamennyi résztvevő megkapja Poór-Zentai: Franchise, út a sikeres vállalkozáshoz című könyvét, a franchise témakörében megjelent első magyar szakkönyvet, valamint a kifejezetten erre az alkalomra összeállított magyar nyelvű franchise szakirodalmat. A részvétel díjtalan.

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Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Futurekids, Inc.
A franchise tárgyat képező üzlet rövid leírása:	Számítógépes oktatási központok 3-15 év közötti gyermekek számára, hogy megtanulják a számítógépek használatát.
Alapítás éve:	1983
Mióta működik franchise formában:	1989
A vállalat saját tulajdonú egységeinek száma az USA-ban:	0
A vállalat franchise átvevőinek száma az USA-ban:	329
Franchise díjak az USA-ban ⁸ :	
Induló franchise díj:	25 000 US \$
Folyamatos díj (royalty):	360 US \$ plusz a nettó forgalom 10%-a

⁸ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet.

Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1990

Mely országokban van franchise-jogi szerződése:

Japán, Kanada, Mexikó, Brazília, Chile, Argentína, Hong Kong, Szingapur, Ausztrália, Írország, Thaiföld, Indonézia

Összes Amerikán kívüli egységének száma:

66

Milyen formában ad át franchise jogot:

USA-ban		USA-n kívül	
igen	nem	igen	nem

Egyedi

x

x

Területi

x

x

Mester-franchise (szub-franchise)

x

x

Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Arby's, Inc.
A franchise tárgyat képező üzlet rövid leírása:	Marhasültet, csirkét, óriásszendvicseket és egyéb szendvics specialitásokat kínáló gyorsétkeztető hálózat
Alapítás éve:	1964
Mióta működik franchise formában:	1964
A vállalat saját tulajdonú egységeinek száma az USA-ban:	270
A vállalat franchise átvevőinek száma az USA-ban:	2300
Franchise díjak az USA-ban ⁴ :	
Induló franchise díj:	25 000 - 37 000 US \$
Folyamatos díj (royalty):	3,5 - 4 %

⁴ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet.

Franchise Közép- és Kelet-Európában: Magyarország
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A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	The Barbers/Cost Cutters/City Looks
A franchise tárgyat képező üzlet rövid leírása:	Komlett, kulcsra kész 8-10 alkalmazottat foglalkoztató hajszalon, s az ennek működtetéséhez szükséges marketing program, a teljes, folyamatos technikai és üzletviteli oktatással.
Alapítás éve:	1968
Mióta működik franchise formában:	1970
A vállalat saját tulajdonú egységeinek száma az USA-ban:	3
A vállalat franchise átvevőinek száma az USA-ban:	633
Franchise díjak az USA-ban ⁶ :	
Induló franchise díj:	19 500 US \$
Folyamatos díj (royalty):	6 %

⁶ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet

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Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1992

Mely országokban van franchise-jogi szerződése:

Franciaország

Összes Amerikán kívüli egységének száma:

2

Milyen formában ad át franchise jogot:

USA-ban		USA-n kívül	
igen	nem	igen	nem

Egyedi

x		x	
---	--	---	--

Területi

x		x	
---	--	---	--

Mester-franchise (szub-franchise)

x		x	
---	--	---	--

Egyéb fontos információ a magyar franchise átvevők számára:

Az átadó rugalmas, minden hasznos javaslatot készséggel megfontol. Szeretne néhány állami fodrászszalont átformálni.

**Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt**

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Decorating Den Systems, Inc.
A franchise tárgyát képező üzlet rövid leírása:	A világ első otthonról megrendelhető belső dekorációs szolgáltató rendszere
Alapítás éve:	1970
Mióta működik franchise formában:	1970
A vállalat saját tulajdonú egységeinek száma az USA-ban:	0
A vállalat franchise átvevőinek száma az USA-ban:	1200 fölött
Franchise díjak az USA-ban ² :	
Induló franchise díj:	8 900 - 24 000 US \$
Folyamatos díj (royalty):	7-11 %

² A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet.

1982

Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1988 május

Mely országokban van franchise-jogi szerződése:

USA, Japán, Egyesült Királyság, Kanada, Spanyolország, Ausztrália

Összes Amerikán kívüli egységének száma:

125

Milyen formában ad át franchise jogot:

USA-ban		USA-n kívül	
igen	nem	igen	nem

Egyedi

x

x

Területi

x

x

Mester-franchise (szub-franchise)

x

x

Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Fantastic Sam s International, Inc.
A franchise tárgyát képező üzlet rövid leírása:	Családi hajápolási szalonok, a család összes tagjára kiterjedő teljes körű szépségápolási szolgáltatás (férfi, női, gyermek)
Alapítás éve:	1974
Mióta működik franchise formában:	1976
A vállalat saját tulajdonú egységeinek száma az USA-ban:	1
A vállalat franchise átvevőinek száma az USA-ban:	1176
Franchise díjak az USA-ban ¹ :	
Induló franchise díj:	25 000 US \$
Folyamatos díj (royalty):	Heti 170 US \$

¹ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országoként különböző lehet.

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Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1985

Mely országokban van franchise-jogi szerződése:

USA, Kanada, Japán, Taivan, Szingapur, Egyesült Királyság

Összes Amerikán kívüli egységének száma:

125

Milyen formában ad át franchise jogot:

USA-ban USA-n kívül

igen nem igen nem

Egyedi

x

Területi

x

Mester-franchise (szub-franchise)

x

x

Egyéb fontos információ a magyar franchise átvevők számára:

A világ legnagyobb franchise rendszerű szépségszalon vállalata, több, mint 1300 működő szalonnal.

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Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	I Can't Believe It's Yoghurt
A franchise tárgyat képező üzlet rövid leírása:	Yoghurt-fagylalt kiskereskedelmi üzlethálózat
Alapítás éve:	1977
Mióta működik franchise formában:	1985
A vállalat saját tulajdonú egységeinek száma az USA-ban:	4
A vállalat franchise átvevőinek száma az USA-ban:	429
Franchise díjak az USA-ban ³ :	
Induló franchise díj:	22 500 US \$
Folyamatos díj (royalty):	5 % plusz 2 % marketing

³ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet.

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**Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt**

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Subway
A franchise tárgyat képező üzlet rövid leírása:	"Tengeralattjáró" formájú szendvics specialitásokat kínáló üzletek
Alapítás éve:	1965
Mióta működik franchise formában:	1974
A vállalat saját tulajdonú egységeinek száma az USA-ban:	1
A vállalat franchise átvevőinek száma az USA-ban:	7100
Franchise díjak az USA-ban ⁵ :	
Induló franchise díj:	10 000 US \$
Folyamatos díj (royalty):	8 %

⁵ A franchise díj eltérhet az USA-ban alkalmazott díjaktól és országonként különböző lehet.

Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1982

Mely országokban van franchise-jogi szerződése:

USA, Kanada, Ausztrália, Korea, Japán, Portugália, Bahrein, Izrael, Szaud-Arábia, St.Martin, St.Thomas, Trinidad, Guam, Saipan, Kajmán Szigetek, Aruba, Bahama Szigetek, Puerto Rico

Összes Amerikán kívüli egységének száma:

500

Milyen formában ad át franchise jogot:

USA-ban USA-n kívül

igen nem igen nem

Egyedi

x x

Területi

 x x

Mester-franchise (szub-franchise)

 x

Franchise Közép- és Kelet-Európában: Magyarország
Az EastEurope Law, Ltd. Franchise Projektje
Az Amerikai Nemzetközi Fejlesztési Ügynökség (USAID)
Által Támogatott Projekt

A FRANCHISE ÁTADÓ ADATAI

A vállalat neve:	Ziebart Tidy Car (Ziebart International Corp.)
A franchise tárgyat képező üzlet rövid leírása:	Professzionálisan tervezett és felszerelt autóvédelmi tartozékok és felszerelések, amelyek egyrészt esztétikai célokat, másrészt az élettartam meghosszabbítását szolgálják.
Alapítás éve:	1954
Mióta működik franchise formában:	1963
A vállalat saját tulajdonú egységeinek száma az USA-ban:	18.
A vállalat franchise átvevőinek száma az USA-ban:	325
Franchise díjak az USA-ban ⁷ :	
Induló franchise díj:	24 000 US \$
Folyamatos díj (royalty):	8 %

⁷ A franchise díj eltérhet az USA-ban alkalmazott díjaktól, és országonként különböző lehet

Nemzetközi franchise:

Az első Amerikán kívüli franchise szerződés megkötésének időpontja:

1965

Mely országokban van franchise-jogi szerződése:

40 országban, ezen belül Németországban, Svédországban, Dániában, Máltán, Mexikóban, Braziliában, Indonéziában, Thaiföldön, Japánban, Koreában, Taivanban

Összes Amerikán kívüli egységének száma:

340

Milyen formában ad át franchise jogot:

USA-ban		USA-n kívül	
igen	nem	igen	nem

Egyedi

x

x

Területi

x

x

Mester-franchise (szub-franchise)

x

x

Egyéb fontos információ a magyar franchise átvevők számára:

Európában telepített marketing és technikai támogatás áll az átvevő rendelkezésére a beindításkor és a szerződés fennállásának teljes időtartama alatt.



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ALAPÍTVÁ: 1983

LEVÉLÖNK SZÁMA: 468/93

ÖGYINTÉZŐNK: Bodóné

HIVATKOZÁS:

TÁRGY:

SZEGED, 1993.06.14.

Dr. Kovács Tamás
East-West Business Center

Tisztelt Dr. Kovács Úr!

Mellékelten küldök néhány termékünkéről angol nyelvű leírást, szíves használatra.

Szeretném megjegyezni, hogy a Gilb-ről, a termékeinkről, valamint a GAK lednyvállalatáról (egy kereskedő Kft és egy Zoll-Platz Kft nevű vámraktár és vámszabadterület) kb. 20 perces angol nyelvű videófilmmünk van.

Amennyiben Ön úgy ítéli meg, hogy van idő a lejátszásra, magammal viszem.

Teljes tisztelettel:

Dr. Simó Ferenc



„AUTO-MOBIL” VEGYI GAZDASÁGI MUNKAKÖZÖSSÉG
6720 SZEGED, OSKOLA U. 16. TELEFON: 62/13-299 TELEFAX: 62/26 138
6701 SZEGED, PF.: 688
OTP: 289-98008-31268-8

21-689

23-703

27-516

ALAPÍTVÁ: 1983

157



ALAPÍTVÁ 1983

„AUTO-MOBIL” VEGYI GAZDASÁGI MUNKAKÖZÖSSÉG
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6701 SZÉKES, PF.: 688 21-689
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27-516

The AM diamondpastes

The product of AM is a mixture of organic dissolvent (thus it's possible to dilute it with alcohol) of synthetically made diamond-powder with great stability. As such, in the first place it can be efficiently used for fine polishing, machining of surfaces and reflection, such as: diamond, hard metal, glass, quartz, ceramics, steel, non-ferrous metal.

We distribute our products with 5% or 10% powder-content, the paste which contains more diamond has longer lifetime of the usefulness of course

We indicate on the packing the granulation of the components of diamond. The powder is separated with sifting according to measurement, e.g. the 5/3 means that the diameter of the fragments is between 3 and 5 mikrometer. In the practice in the beginning for the coarse machining the large (e.g. 60/40) and then for the machining of the fine surfaces the small numbered (e.g. 3/2) type of the paste is most successful.

We mark the granulation according to the valid standards. The paste, which contains 60/28 granulation is marked with red, the paste with granulation between 28/10 is marked with blue, with 10/3 is marked with green and when the diameter of the diamond-powder is 3/0 mikrometer the paste is marked with yellow colour.

Available granulations: 60/40, 40/28, 28/20, 20/14, 14/10, 10/7, 7/5, 5/3, 3/2, 2/1, 1/0.

Packing: in 5 g, 10 g and 20 g.

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ALAPÍTVÁ: 1983

„AUTO-MOBIL” VEGYI GAZDASÁGI MUNKAKÖZÖSSÉG
6720 SZEGED, OSKOLA U. 16 TELEFON: 62/13-299 TELEFAX: 62/26-138
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“AUTO MOBIL” CHEMICAL ECONOMIC ASSOCIATION

AM COSMETICS

The secret of success of the AM Phytale cosmetics, is a hundreds of years old experiential wisdom of the pharmacy of the nature. Each preparation is based on a curative power of medicinal herbs, such as: pot marigold, benzoin gum, wilde chamomile, beeswax, Swedish bitter mixture of spices or the pot marigold. The active ingredient of the products is the essence of these, their fragrance is also given by the natural substances

The Phytale beauty cosmetics - for water famine skin. They are prepared for treatment of water famine, pale, dry to the touch, susceptible to become wrinkled and often black-headed skins. The complex, permanent use of the four preparations, results with a complete regeneration and renewal of the skin. Their active ingredients are hydrational and antiphlogistic essences of medicinal herbs.

- The cleansing cream cleans without drying effect and also contains a hydrational substance.
- The face-wash can be used with cooling, hydration and cleaning effect.
- The hydration cream is rich in natural substances, using together with the face-wash results with a quick regeneration and renewal.
- Using the peeling cream twice a week is necessary for elimination of the upper, keratinized stratum of skin, and helps on the vital, favourable effect of the cosmetics.

Phytale Swedisch-bitter cream

It's active ingredient is the Swedish-bitter mixture of spices, which is added to a basic-cream consisting of medicinal herbs that helps on the absorption. It results with a quicker and more better recovering of the bites, rashes, superficial wounds. It can be used also for relieving and curing, combined with a pot-marigold-cream as a poultice, of inflammatory symptoms.

Phytale pot-marigold-cream

The pot marigold is one of the most important medicinal herbs, it has healing power of many aspects.

AM Silicon Family of Products

The AM products with methyl-silicon-oil agent are suitable for a wide-range domestical and industrial utilization, as a result of their excellent water-repellent and anticorrosion effect.

Silicon Spray

In 400 g bottles with freon

In 390 g environment protecting bottles with CO₂.

In 200 ml environment-protecting bottles with CO₂, perfumed finish

Because of their high-efficient form-detaching ability, they can be utilized with good results at rubber and synthetic materials processing and metal-working. They are especially practical for polyethylene, polyamide, polystyrene, PVC, phenol-, pheno-, and amino-plasts, etc. processing.

They are especially useful at welding with protecting-gas, for easy removal of the metal precipitations. During operations with glues they reduce the capability for adhesion, where adhesion is undesirable.

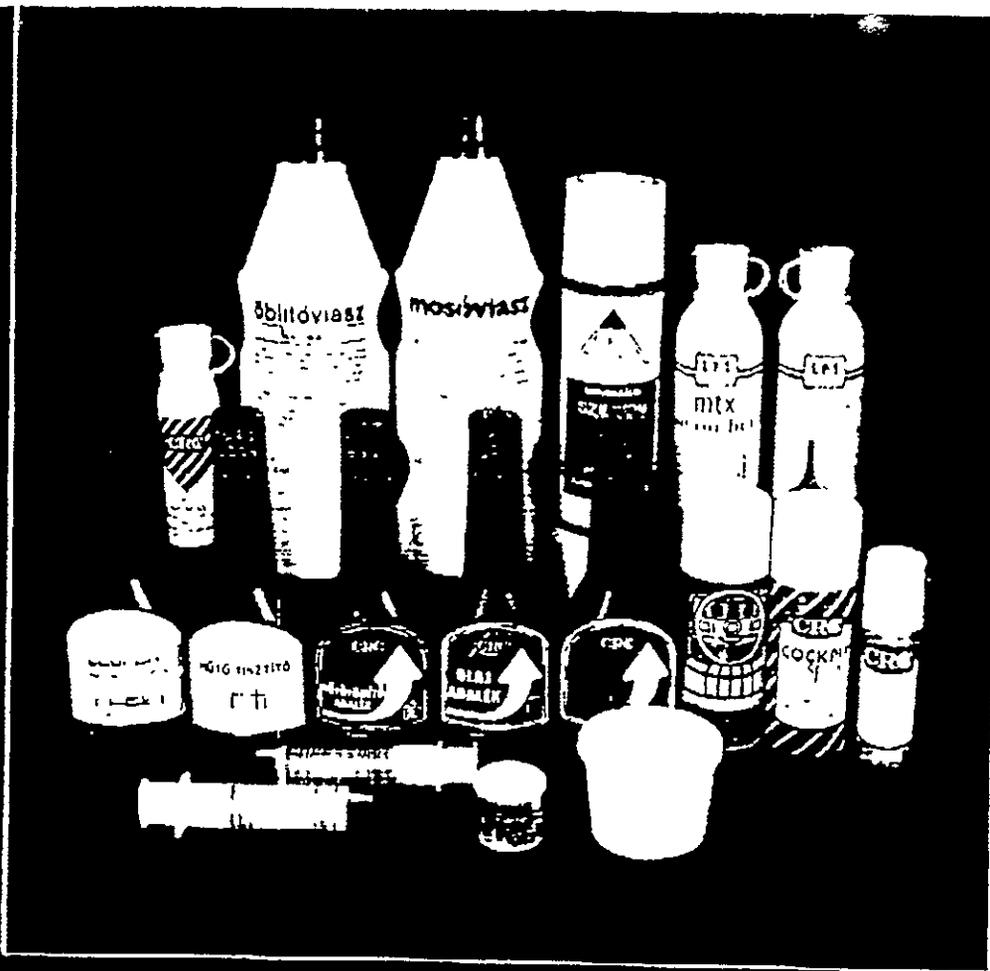
In household they can be used for heats cleaning, lubrication of locks and strap-hinges, as well as for degradation prevention and cleaning of plastic and leather surfaces (footwear, sitting furniture). In cars (perfumed version) they are suitable for cleaning and protecting of the dashboard, plastic parts and rubber capes - yet, attention must be paid not to spray on glass surfaces and pedals.

Silicon Grease

The silicon grease is of water-repellent, heat and frost resisting (-50 - +150°C, moreover, for a short time up to +250 °C without becoming liquid), lubricating, insulating and form separating effect. In the latter case it gives a shiny, faultless surface and results with a considerable energy saving. It is an excellent lubricating and sliding implement with water-repellent effect and can be applied as insulating grease in electric industry, e.g. for switches. It has a wide range application as sealing-compound, in vacuum engineering, as an approved lubricant for rubber gasket and cars ignition system protection.

Aviable in 15 g and 130 g packings.

CHLORINE HI



QIM
auto mobil
szegedi
gazdasági munkahelyzet

6720 Szeged, Oskola u. 16

**Information Provided About June 21 Meeting
To Prospective Hungarian Investors**



Public Trade Corporation
3300 Eger, Trintárius u. 2. Pf. 92.

Telefon 36/10-283
36/10-662
36/11-397
Fax 36/10-605
President CEO Tel 36/10-455
Director of operations: Tel 36/10-326



Hungarian and Foreign Manufacturers Products in Opmus Home Furnishing Store

EGER EAST-WEST PUBLIC CORPORATION, FROM EAST TO WEST



The computer center of the company
We do work for other companies as well

The East-West Trade Corporation mainly functions in trade, owning a chain of stores in nothern Hungary

It was founded in 1991 based on a four decade old state company. Besides banks and self-governing bodies having shares there is eighty percent owned by the state which will be privatized in the near future. The new organization has a

new face but works with a lot of experience the 30 shops are paramount in supplying Heves County

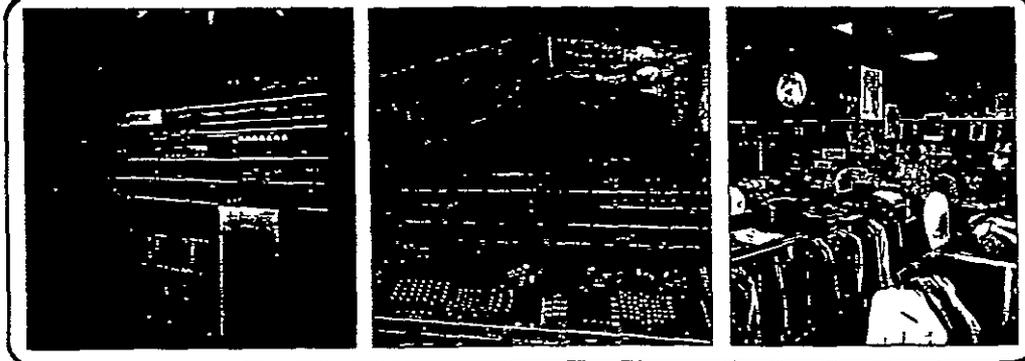
Our shops profiles are consumer electronics and home decorating items The stores specializing in cosmetics, glass- and gift items have a large inventory turnover rate. Modern, multi-storey department stores, specialty stores and shops with brand-name items await the shoppers of East-West

The corporation also has a chain of wholesale warehouses Having an export-import license allows us to distribute and whole sale internationally

For the year 1992 the estimated sales volume is approximately 2 million Forints Total shop and warehouse floor-space is 20 000 square meters In support of trade operations East-West also has an extensive and aggressive advertising program. This program encompasses newspaper radio and television ads as well as organizing fashion shows and participating in trade expositions which display our regular and new items

The start-up capital of East-West is 419 million Forints The allocation of this capital is determined by a 3 member board experienced shop owners managerial staff and a 300 member trade collective

East-West corporation has an extremely well managed financial direction that enables us to promptly pay all debts, giving the company a strong and secure future and allowing our company to expand its trade circle



Consumer Electronics, Hatvan

Our wide selection at Búkk Kapu General Merchandise Store

Aranypók Specialty Store in Eger

LARGER STORES OF EAST-WEST CORPORATION IN HEVES COUNTY

- 'Juventus' Clothing Store Eger, Érsek u. 1. Tel. 36/10-467
 'Aranypók' Fashion Shop Eger, Dr. Sándor I. u. 1. Tel. 36/11-626
 'Napsugar' Clothing Store Eger, Bajcsy Zs. u. 3. Tel.: 36/12-904
 'Varázs' Shoe Store Eger, Széchenyi u. 4. Tel.: 36/10-792
 'Mágnes' Consumer Electronics Store Eger, Dr. Sándor I. u. 1. Tel. 36/11-306
 'Domus' Home Furnishing and Decorating Store Eger, Barkóczy u. 4. Tel. 36/12-833 Fax: 36/12-719
 'Domus' Food Discount Store Eger, Barkóczy u. 4. Tel. 36/12-550
 'Tihamér' Food Discount Store Eger, Kertész u. 154. Tel.: 36/11-255
 'Bükk-Kapu' General Merchandise Store Eger, Vajon u. 4. Tel. 36/25-004
 'Komfort' Hardware Store Eger, Zalár J. u. 10. Tel.: 36/13-863
 'Fazis' Electronics Store Eger, Ady E. u. 4/A. Tel.: 36/10-996
 'Kleopátra' Cosmetics Store Eger, Széchenyi u. 8. - Tel.: 36/10-050
 Stationery Store Eger, Széchenyi u. 12. Tel.: 36/12-725
 'Ápisz' Stationery Store Eger, Széchenyi u. 5. Tel.: 36/12-725
 Government Print Shop Eger, Szvorényi u. 4. Tel.: 36/13-104
 MOBILETTE Car Parts Store Eger, Széchenyi u. 12. Tel.: 36/10-683
 'Royal' Home Furnishings Eger, Kossuth L. tér. Tel.: 36/20-355
 HBH Micro-Brewery Eger, Bajcsy Zs. u. 19. Tel.: 36/11-312
 Manager Shop Eger, Trinitánus u. 2. Tel.: 36/10-320
 Wholesale Warehouse Eger, Kisfaludy u. 1. Tel.: 36/13-445
- 'FÓNIX' Home Furnishing and Decorating Store Gyöngyös, Eszperantó u. 6. Tel.: 37/11-041
 'Fenyő' Clothing Store Gyöngyös, Fő tér 2. Tel. 37/11-141
 Kitchen Appliance Store Gyöngyös, Kossuth L. u. 24. Tel. 37/12-519
 Hardware Store Gyöngyös, Kossuth L. u. 23. Tel. 37/12-326
 Stationery Store Gyöngyös, Szent Bertalan u. 10. Tel. 37/11-762
 Stationery Store Gyöngyös, Mátyás kir. u. 5. Tel. 37/12-170
 'CIAO RAGAZZO' Clothing Store Gyöngyös, Mátyás kir. u. 3. Tel. 37/12-372
- Shoe Store Hatvan, Kossuth tér 13. Tel.: 38/11-962
 Electronics Store Hatvan, Grassalkovich u. 6. Tel./fax: 38/12-685
 Kitchen Appliances Store Hatvan, Erzsébet tér 3. Tel.: 38/11-337
 Hardware Store Hatvan, Vásártér. Tel.: 38/11-840
 'NVO' Fashion Store Hatvan, Kossuth L. tér 13. Tel.: 38/11-962



HBH Micro-Brewery



Utopia Nyomda,
 Debrecen

-32-1-227-2532

ROYAL BÜTÖRKER RT

1092 BUDAPEST, DÁNYI UTCA 11.

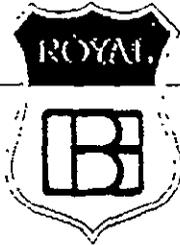


ROYAL-BÜTÖRKER. RT.

1092 BUDAPEST, DÁNYI UTCA 11.



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ROYAL BÜTÖRKER RT.

1092 BUDAPEST RÁDAY u.42-44

1450 BUDAPEST, Pf.52

Tel. : 217-0500

Fax: 217-2530

MHB 201-51445

Kinek

Név : Dr.Kovács Tamás úr igazgató

Cég : East Europe Low

Fax : 266-6360

Kitől

Név : Dr.Csaplár Gábor vezérigazgató

Tel : 217-2532

Fax : 217-2530

Oldalszám : 2 /kettő/ A cég rövid ismertetése angol nyel. en.

Dr.Csaplár Gábor úr a következő két tétellel kéri a tárgyalást:

RAINBOW INTERNATIONAL

DECORATING DEN

ROYAL BÜTÖRKÉRESKEDELMI RT

Szigeti Ferencné
titkár

ROYAL

Bútorkereskedelmi Rt.

ROYAL FURNITURE TRADING SHARE COMPANY
Royal Bútorkereskedelmi Részvénytársaság

Head Office:
Ráday u.42-44.
H-1092 Budapest
Tel:(+36-1) 247 25 31
Fax:(+36-1) 247 25 30

Founded in 1990, Royal Bútorkereskedelmi Részvénytársaság (ROYAL) is the successor to Bútorkereskedelmi Vállalat, which was mainly concerned with retail activities. Today, the company operates throughout Hungary, with main retail outlets, restructured as individual profit centres, in Budapest, Miskolc, Veszprém, TÁO, and Cegléd. In fiscal 1992, ROYAL recorded a turnover of Hf 3.14 billion. The rate of profit is: 5,1 %
Corporate success is the result of large capital investments, coupled with a superior product range and the efforts of a motivated and qualified staff.

ROYAL-Supplier of Excellent Furniture

The company maintains business contacts with over 70 suppliers and imports from almost 11 hard currency-countries, including Italy, England, Spain, France, Malaysia, Indonesia, Germany, USA, and Austria. In 1991, ROYAL extended its supply programme to include exclusive upholstered furniture.
Now ROYAL is a private-owned company. Our owner is: CO-NEXUS Share Company.

The Future

ROYAL, which ranks among the five best trading companies in Hungary, sees its future success as lying in its ability to meet and anticipate the needs of a dynamic marketplace. In pursuing its goals, ROYAL can fully rely on its dedicated and achievement-oriented employees.

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FUTURE DEVELOPMENT

SASAC Ltd. (formerly SASAC Ltd.)

was formed by the merger of SASAC Ltd. and SASAC Ltd. in eastern Europe.

The recently formed SASAC Ltd. (SASAC Ltd.) has a long history and holdings has an extensive record of operations in the region and experience.

For many years ago in the 1950s SASAC Ltd. (SASAC Ltd.) was a small, privately held, family-owned business.

Over the years, SASAC Ltd. (SASAC Ltd.)

has grown through several stages of development.

It has been through several stages of development.

SASAC Ltd. (SASAC Ltd.) has been through several stages of development.

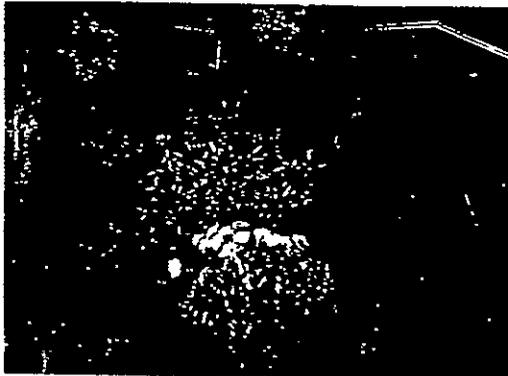
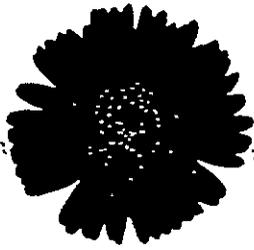
It has been through several stages of development.

SASAC Ltd. (SASAC Ltd.)



Joint-Ventures

P I N G P L A N T C U L T I V A T I O N



SASAD, a state-owned enterprise, has opened an experimental glasshouse for propagation, growing and marketing ornamentals in Hungary. SASAD's production includes growing and marketing ornamentals and SASAD's activities include registration of plants, dates, and international exhibitions - Amsterdam, Bonn, Edinburgh, Moscow etc.

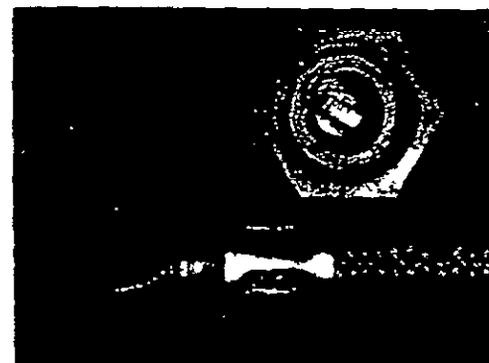
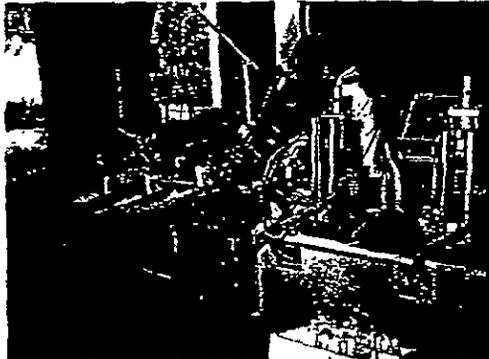
The increasing interest in plants and flowers led to an increased output year over year. The favourable parameters of the company's production are:

using glass houses built on a double roof to save energy. At the propagation stage, the use of a cover, the use of a mass heating and cooling system. The use of a mass heating and cooling system. The use of a mass heating and cooling system. The use of a mass heating and cooling system.

The competence of the staff, the work in the glasshouse, the construction of parks and gardens of the country customers can direct. The use of a mass heating and cooling system. The use of a mass heating and cooling system.

The 51 flower shops & seed shops in Budapest Small Garden Shop and the use of a mass heating and cooling system. The use of a mass heating and cooling system.

A N D S E R V I C E



SASAD Ltd. would be strong, hard and oriented. Engages in manufacturing of mechanical equipment of a scope and quality employed about 1500 as a large corporation.

Manufacturing and the provision of services are important places in SASAD Ltd. existence, they encompass 3000 different types of products and services. Industrial production includes: manufacturing of plastic products, metal and die-cast parts, spring and toolmaking, precision instrument manufacture and installation and export packaging. Jointly with our Swiss partners we brought to the market the manufacture and installation of petrol and diesel products in Hungary. We can also satisfy the growing need for the Bowden-Tek electrical and electronic parts.

- Successful product developed by cooperation between the workplace safety globe team. This product is PVC based and manufactured by a die-casting method. Further development in cooperation with COM-SEC (French firm) whose know-how and experience we use. We manufacture a PVC based workplace safety product. Licenses of this product whose quality is internationally accepted, we satisfy a decisive part of the home market. SASAD Ltd. has 93 transport vehicles and associated maintenance workshop, which besides satisfying internal needs, is available for outside transport needs and maintenance services. By taking part in the establishment of a shopping centre, SASAD Ltd. extends its activity in tourism and the hospitality industry.

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O R A D V A N C E M E N T



During the past few years, SASAD has developed a sound financial and organizational structure. This has allowed the company to weather the economic downturns of the past few years and to modernize their organizational structure. The result of this modernization has been a significant increase in the company's capital strength and a more solid financial base. This has provided a suitable environment for future development. As a result, a consensus of the members of the Board of Directors in March 1991 transformed the company into

SASAD Limited

Company worth at the time of transformation: 5,049,800 U.S. Dollars
 Nominal value of shares: 1,000 U.S. Dollars
 Allotted number of shares: 5,049

Of these—

Number of small shareholders: 1,000
 Value of their holdings: 1,000,000 U.S. Dollars
 Value of unallotted shares: 4,049,800 U.S. Dollars

At the time of transformation, the value of the company's net worth was added to the American GNP. When the time of conversion of the shares were completed, a market value GNP would be established. Subject to business conditions, the company's net worth, except for the shares, is 4,049,800 U.S. Dollars.

	Million U.S. Dollars
Item	Breakdown of Assets
Fixed Assets	2,500
Current Assets	1,000
Land	1,549
Total Net Worth	5,049

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P H I L O S O P H Y



O

Our philosophy is based on the following principles: to provide our customers with the highest quality products and services, to be profitable, to be socially responsible, and to be a leader in our industry.

Underlying our business philosophy are:

- A balanced and profitable growth
- A guaranteed work environment for our employees
- A continuing research and development program

Therefore, this document is:

- To be trustworthy and reliable
- To take into account the needs of all stakeholders
- To be a guide for our actions and decisions, and to be considered as a

Dr. Laszlo Mihalik
Chairman—General Manager

József Bukvai
Deputy Chairman—
Deputy General Manager

Mrs. Gyula Porganyi
Chief Financial Officer—
Deputy General Manager

Ottó Bósz
Manager

Sándor Menzer
Manager

Dr. Kálmán Preiner
Manager

Etele Zalay
Manager

Mrs. Dr. Ferenc Gyuró
Chair Supervisory Committee

A S S O C I A T I E S

The Association actuating 2 514 billion (US) Forints are

Technomark Rt	Dr. Tibor Földi	Chairman - General Manager
MUSZI Rt	Dr. Tibor Földi	Chairman - General Manager
Pannónia Innovációs Rt	Dr. Csaba Gábor	Chairman - General Manager
Skála-Coop Kereskedelmi és Ipari Rt	Dr. István Imre	Chairman - General Manager
Agrobank Rt	Gusztáv Gerő	Chairman - General Manager
Budapest Bank Rt	Pat Borros	Chairman - General Manager
Magyar Hitelbank Rt	Dr. Miklós Szegedi	Chairman - General Manager
Mezőbank Rt	Dr. Gyula Kábel	Chairman - General Manager
MIRSA Rt	Dr. József László	Chairman - General Manager
KSZE Novénytermelési Rendszer	Dr. Csaba Laka	Chairman - General Manager

BUDAPARK Kft	György Czinczo	Managing Director
Pénzügyi Vállalkozási Központ Kft	Dr. László Mihály	Managing Director
Hotel Lux Kft	Dr. Gábor Deginster	Managing Director
Környűri Befektetési Kft	Sándor Menzer	Managing Director
LTP Lux Kft	Mrs. Dr. Ferenc Boros	Managing Director
MIKÖV Kft	János Csabó	Managing Director
Vörsas Kft	József Tóth	Managing Director

Agrárfejlesztő Közös Vállalat	Dr. Karoly Tamás	Manager
AGROCORP Közös Vállalat	György Árpád	Manager
Cooptourist Közös Vállalat	Dr. Sándor Székely	Manager
Flóracoop	László Recas	Manager
Hortcoop	Ferenc Berka	Manager
Mobelcoop	János Fejes	Manager
Taurina Agrárfejlesztő Közös Vállalat	Károly Pócs	Manager
TSZKER Rt	Szivan Baróc	Manager
TSZTEJ Egyesülés	Dr. Miklós Boros	Manager
TESZOV	Dr. Pál Gyula	Manager
Schöller-Budatej K. V.	Dr. János	Manager

Gabonaszárító Betéti Társaság	Jeno Tóth	Business Manager
Horgász Egyesület	György Czinczo	Chairman
MONIMPEX Külkeresedelem Virágiroda	Gábor Kardos	Chairman
Gyümölcs Egyesülés	Robert Lux	Manager
Vízmű Társulás		
Dísznövénytermesztők Országos Szövetsége	József Rekes	Chairman

S E E K U S A N D Y O U R E

DR. LASZLO MIHALIK
Board Chairman
General Manager

1112 Budapest
Budaorsi ut. 1289 hrsz
Phone 166-7973

JÓZSEF BUKVAI
Deputy Chairman
Deputy General Manager

1112 Budapest
Budaorsi ut. 289 hrsz
Phone 166-9959

Mrs. GYULA PORGANYI
Chief Financial Officer
Deputy General Manager

1112 Budapest
Budaorsi ut. 289 hrsz
Phone 166-9959

OTTÓ BÖSZ
Manager

2036 Sorskut
Fő utca 14
Phone 06-26-48015 06-26-48049

SÁNDOR MENZER
Manager

2049 Diósc
Kossuth L. utca 12-4
Phone 166-9010

ETELE ZALAY
Manager

1112 Budapest
Budaorsi ut. 289 hrsz
Phone 166-9959

DR. KÁLMÁN PREINER
Administrative and Legal Manager

1112 Budapest
Budaorsi ut 1289 hrsz
Phone 166-9000/125

Mrs. Dr. FERENC GYURÓ
Chair Supervisory Committee

1112 Budapest
Budaorsi ut 1289 hrsz
Phone 166-2530

Ornamental Plant Growing

Mrs. SZUCS GABRIELLA SCHOLLE
Plantation Manager

1112 Budapest Budaorsi ut 1289 hrsz
Phone 166-9000/125

Ornamental Plant Growing

ISTVÁN SAROK
Plantation Manager

1225 Budapest Noveny u 15-25
Phone 226-8109

Ornamental Plant Growing

PÁL MOCSARY
Plantation Manager

1112 Budapest Hamarberger ut. 243
Phone 166-9046

Fruit Growing

LASZLO TERESCSIK
Plantation Manager

1140 Budapest Fény
Phone 166-9046

Ornamental Plant Marketing

JÓZSEF PARÓCZY
Marketing Manager

1112 Budapest, Budaorsi ut. 1092/3 hrsz
Phone 166-6036

Tree Nursery

ANDRÁS PREINER
Division Manager

2045 Torokpalint Fekete dulo 027 hrsz
Phone 166-9181

Board Acre Plant Growing

JENO TOTH
Division Manager

2461 Tarnok Baranyosok
Phone 06-26-49004

C E R T A I N T O F I N D U S

Cattle Division

TIBOR ROZSAHEGYI
Division Manager

1461 Tarnok Anasztazia puszta
Phone 06-26-49059

Park Construction

FERENC HREBLAY
Depot Manager

26 Budapest Szeged u 34
Phone 55-6632

Landscaping

GABOR SZÜCS
Depot Manager

28 Budapest Budaors u 299-102
Phone 66-9000-073

Decoration

Mrs. GYULA KOSSIK
Plant Manager

1223 Budapest Joki ut 27
Phone 226-8018

Interior Fittings

GYULA SZÁSZFAI
Plant Manager

1201 Budapest Elek u 25-37
Phone 147-9907

Preserves

FERENC ALBERT
Plant Manager

224 Budapest Baracs u 1
Phone 226-8025

Softening Powder Production

FERENC BORKA
Division Manager

1205 Budapest Nvartai Pal u 88
Phone 157-3088

Wood Products Export Packaging

JÓZSEF BROLL
Plant Manager

2040 Budaors Frank tanya
Phone 166-6699

Printing Screen Printing

Mrs. ZIMNICZ KATALIN PAP
Plant Manager

122 Budapest Kacina u
Phone 226-8110

Cleaning Services

FERENC TOTH
Services Manager

1148 Budapest Nagy Lajos kir u 19
Phone 252-1979

Electronic Activities

ZOLTAN NEMES
Precision Engineering Mgr

112 Budapest Ruppencs u 18
Phone 166-5700

Auto Electrical Servicing

GABOR FEJER
Division Manager

112 Budapest Ruppencs u 18
Phone 66-9000-026

Toolmaking, Fitting and Turning

KÁROLY BALTRINGER
Plant Manager

2040 Budaors Frank tanya
Phone 166-8699

Vehicle Maintenance

DEZSŐ HIDEG
Division Manager

1112 Budapest Budaors ut 1151 hrsz
Phone 166-9000/269

Capital Construction and Maintenance

ATTILA SOMOGYVÁRY
Division Manager

1112 Budapest Budaors ut 1151 hrsz
Phone 166-9000/183



AUTÓJAVÍTÓ Kft.

1037 Budapest, Zay u. 24.

☎ Titkárság: 168-9003, 188-9176, gazd.ig.: 168-8659 ☎ Tel/Fax: 188-9175, 188-9176

FIRM REVIEW

Introduction of our firm

In few words about our past:

The predecessor of our firm was a large state enterprise operating many hundreds of trucks, the plant and the technical basis was built for that purpose about 20 years ago. In consequence of the changes occurred in Hungary the large enterprise was broken up 1989 into 12 smaller units.

One of these is the plant in the Zay street. At that time the state owner founded the Duna Interservice LTD with a basic capital of 28 million Forints, wherein the basic capital consisted of spare parts, instruments of production and of minimal cash. Duna Interservice leased for the operation needed plant from the Hungarian state.

- After the above mentioned events succeeded the privatisation which occurred in two steps.

First step was the buying of the state-owned business share, the second one was the buying of the plant which occurred in a leasing construction. In reference to the present Hungarian laws the proprietary rights of the lessor bank were registered into the land register.

According to the contract between the lessor bank and Duna Interservice as lesser the plant can get into property of Duna Interservice earliest by the 1. of July 1993.

At the same time leaves the territory finally The Dunatrans LTD., which one is an another successor of the ancient large enterprise, but it is already completely independent from us.

Our LTD. is owned by 5 individuals in percentages 40-20-20-10-10. These five individuals are at the same time the leaders of the LTD. The leasing authority was given for the bank by these 5 individuals, therefore the proprietorships of the plant are the same as the distribution of business share.

The whole area of the Zay street plant:	39 109 m ²
Built-in area:	7 229 m ²
From the built-in area	
Office building(four-storied)	2 161 m ²
Workshops	3 833 m ²
Number of phone lines:	24
Enclosed please find a plan about the place, form, built-in layout of the plant	

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Parallel with the privatisation- making worse the chances of that-, we were forced to perform investments because without these we had not been able to achieve proper technical service of any brand at an expected high level.

- Our investments in the year 1992: .

Obtaining of equipment for body-building, body kits, rebuilding of the spare parts' store

Buying and setting of

two spiral-gear compressors ATLAS-COPCO

two polish chambers

electronic wheel-alignment adjuster equipment

Buying a SUN-tester for full-range petrol engine diagnostics

Rebuildings because of system change

It is a part of the aboves that since the beginning of the year 1991 based on the contract with the firm DENZEL our LTD. has been performed

- the putting into circulation, brand- service and total technical service of the

MITSUBISHI trucks in Hungary

- brand-service of VOLVO trucks

- development of import centre of NISSAN trucks, complete putting into circulation.

brand-service.

Based on the putting into operation of MITSUBISHI and NISSAN vehicles we have a country-wide network being permanently formed depending on requirements and demands.

Our decennial professional experience and personal contacts help us to develop a proper network.

We have our firm just reorganized.

The direction and operation is performed by a holding-system-like firm. For the various activities we have founded and found new firms. We have presently 130 persons employed at our firms.

About 10-12 % of the employees are graduated, well-speaking German or English respectively. The others are skilled on their special field high-qualified technicians. Based on the aboves our firm and our employees are at home in import, duty and different authority mazes.

They feel at home in marketing, disposal, advertising work, guarantee and surety affairs. The existing whole infrastructure ensures stationary background for that all.

The most important numerical data of economy of Duna Interservice:

	1991	1992	1993
Return from sales	103 084 000	564 046 000	1 397 335 000
Outgoings	101 326 000	559 298 000	1 378 823 000
Results before taxation	1 752 000	1 748 000	1 252 000

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	1991	1992	1993
Average number of employees	121	123	126
Business share in other firm	0		

It has to be taken into consideration at the valuation of the data from 1992 the followings:

- on the one hand, according to the owners' interest, the some part of the results before taxation realized at the InterKontakt LTD.
- on the other hand the leasing costs of the buying of the plant reduced the results before taxation

The property position of Duna Interservice close of the year 1992:

Quoted capital	28 000 000 Ft
Results reverse	3 800 000 Ft
Whole own capital	31 018 000 Ft

InterKontakt LTD

The LTD. was founded by the leaders of Duna Interservice at the beginning of 1991. The LTD. performed different financial actions besides it bought the state business share of Duna Interservice.

The most important data of economy of InterKontakt LTD.

	<u>1991</u>	<u>1992</u>
Return from sales	127 427 000	71 642 000
Outgoings	126 211 000	60 886 000
Results before Taxation	1 211 000	10 756 000
Average number of employees	0	0

The venture has realized in the more than three years after the foundation simultaneously the followings:

- Privatisation, namely in the succesful operation interested management has been owned the enterprise.
- Buying of the real assets needed for operation
- Allround activity change
- Quick growth rate

The forthcoming time period will be the part of development of the enterprising organisation, stabilisation and of establishment of the new growth period

István Ormos
Managing Director

Ladies and Gentlemen!

If you are playing a host to guests at home, organizing parties or you are organizing a treat for your colleagues in the office or perhaps you are arranging representative receptions, do not forget that our

HIDEGKONYHA TERMELŐÜZEM

will supply you with the cold meals on order using the freshest ingredients.

**Address: Hidegkonyha Termelőüzem
(Cold Meal Kitchen)
XI., Fegyvernek u. 52
Telephone: 175-1346**

a.tech
Fejlett Technológiák Kft.

Fejlett Technológiák Kft.
Advanced Technology Ltd.

Kovács Tamás Úr
névelő

H-1085 Budapest
Dl161 ut 32. IV/20.
P.O.B. 101
1450 Budapest
Hungary

Phone: 36-1-1336-759
36-1-1134-457 direct
36-1-1141-840/223
Fax: 36 1-1138-882
Telex: 224584 VASBP H

Brief Introduction

of
the A-TECH Co. Ltd.

The A-TECH Co.Ltd. Hungary is a member of a technology training system manufactory group of companies.

The A-TECH Co.Ltd. was established in 1990 in order to introduce a new High-Tech generation of the educational equipment and training systems for electronics, hydraulics, pneumatics, mechatronics, etc to the Hungarian and East-European market.

Its debut was success. at the end of the first year it has become the largest supplier of the above mentioned educational systems in the Hungarian market. The most significant customers are the Vocational Training and Technical Schools and the Telecom. Companies.

In addition, the A-TECH Co.Ltd. can offer specially designed software packages to enable students to learn, improve and practice in the different fields.

The aim of the A-TECH Co.Ltd. is to extend its marketing activity to the neighbouring countries as well. So far it has had a success in selling training systems in Yugoslavia, Rumania and Czechoslovakia among others.

Besides, the A-TECH Co. Ltd. has just started conducting negotiation in Poland, Lithuania and Ukranian as well.

In the field of telecommunication training A-TECH Co.Ltd. can offer a complex service to the telecom companies ie. not only supply the equipment and systems but providing training courses in Hungary and/or at site on different levels as well.

The A-TECH Co.Ltd. can offer equipment for the training courses for adults learning for requalification.

Finally, the balance sheet shows that the business activity so far has been successful in making 2-2,5 million USD annually.

In the future, the A-TECH Co.Ltd. will take efforts to increase its turnover up to 5-10 million USD in the East-European market.

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BELSŐÉPÍTÉS Kft.

2780 Borsodszécsényi út 100. 4025 Debrecen, Hungary. Tel: 36-52-511111

Die Belsőépítész (Innenarchitekt) GmbH wurde 1989 gegründet und nahm ihre Tätigkeit auf dem Gebiet der Möbelindustrie auf

Wir beschäftigen uns mit kompletten innenarchitektonischen Arbeiten von Hotels, Bürohäusern, Geschäften und Gastgewerbeeinrichtungen, von der Projektierung bis zur Installation.

Zahlreiche in- und ausländische Referenzarbeiten bezeugen für die Qualität unserer bisherigen Tätigkeit.

Im Mittelpunkt unserer Geschäftspolitik stehen

- die korrekten und gegenseitig vorteilhaften Partnerbeziehungen
- kostengünstige profit- und marktorientierte Produktzusammensetzung
- die Entwicklung der Produktionstechnologie und der ständigen Verbesserung der Arbeitsbedingungen



Belsőépítész Kft. (Interior Design Ltd.) was founded in 1989 to launch its activities in the field of furniture industry

We deal with the complete interior design of hotels, office buildings, outlets and on-premise facilities, from design to on-site installations.

The activities carried out so far have been successful as indicated by the numerous domestic and foreign references.

The cornerstone of our business policy implies

- a fair partnership based on mutual interests
- cost saving, profitability and market-oriented product pattern
- development of the production technology and the constant improvement of working conditions

Your Fair Partner

The *Dél-Pesti* Joint Venture was established by two co-operatives in 1971. The company, that was dealing with construction industry in the beginning is standing at the disposal of the public with more and more services. They can offer full service in six fields now.

Interior Design

The interior designers of the company deal with planning and executing, the joiners do the wall covering of offices, shops, restaurants, homes and weekend houses and make the built-in wardrobes of these as well as the entire furnishing with all the practice and expertise.

Address: 1173 Budapest

Pesti út 13-13

Tel: 158-7421

Electrical Service

The experts of this service do the repairing of telecommunications and household equipments, the installing of security systems, entryphones, dish aerials, dispatcher systems; the repairing and maintaining of typewriters and calculators.

Address: 1077 Budapest

Wesselényi u.59

Tel: 122-3935

Painting

A separate unit of the company does the painting, wallpapering and insulated warm floor covering works.

Address: 1089 Budapest

Orczy u. 12

Tel: 133-8711

Cleaning, House-clearance

This service can be offered as a regular or periodic cleaning job, done for for shops, workshops, restaurants, public institutions.

Address: 1089 Budapest

Orczy u. 12

Tel: 114-0530

1097 Budapest

Obester u. 13

Tel: 114-0025

These four together?

It is practical to take the advantage of the above described four activities at the same time when constructing new rooms or renewing old ones. Then, the inner designing and executing plus the connecting works, for example the installing of the security system, the telephone and the aerial, the

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painting, wallpapering the wall- and floor-covering and cleaning, house-clearance are all in one hand. The experts, followed by each other take care of the other s work, the construction period of time and the unnecessary extra costs are decreasing.

Address: 1173 Budapest

Pesti út 16-18

Tel: 147-2908

Cars

The owners of cars and trucks are being offered four services at the same workshop. Car electricity fixing, installing and repairing of car radios and security systems, selling, installing, repairing and centring of tyres. The car demolishing part deals with the selling and buying of used cars and trucks and their components. There is also a plan of building of a world trademark representative car salon, with all the joining services and other establishments under preparation.

Address: 1173 Budapest

Pesti út 16-18

Tel.: 158-7432

Printing House

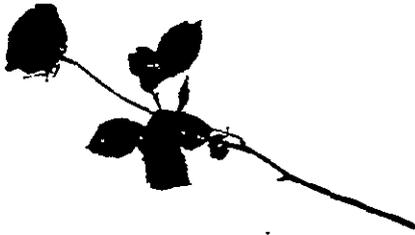
The printing house of the company does all the jobs from graphic designing to the executing of printing (sifter and offset process), undertakes the producing of business cards, notepapers, envelopes,

self-adhesive matrices, handouts, placards,
catalogues and operating manuals.

Address: 1174 Budapest

Rákoczi u. 25

Tel: 158-3019



SASAD LTD.

Sasád Producing and Service
Cooperative Limited

Head Office:

110 Budapest
Tel: 22-289-1100

Operational Centre:

110 Budaors
Kisbazaar út 14

Phone: 36-1-166-9000

Fax: 36-1-186-8399

Telex: 22-4789

110 BUDAORS
KISBAZAR UT 14
HUNGARY

SZOMA TRADING CENTER

Management, Consulting, Training Ltd

Budapest

Our Company was established 1990. From 1991 we are engaged in training and retraining of unemployed. After finishing our courses 320 unemployed succeeded to get middle and high level degree onf different field of professional training. Just now 1770 unemployed are trained by us an they are preparing to get the basic, middle and high level degree from different professional fields.

In automn 1992 we established a new training center with appropriate lecturing and seminar-rooms attached with the nessesery infrastructure. The training center is the center of our firm.

We have working connections with 5 labor centers in different countries in Hungary. Our training are located on the spot (total number of trainees 436 persons).

We are continuelly building up our cooperation with different organisations of employers such as trade unions, chambers of commerce, etc. This type of our connections play a great importance in getting places for professional practice and as a workplace for our students, who have succesfully finished our training courses.

We prepared questionnaire among our graduated students. We examend how they could find a job. This art of the questionnaire is revealing that 45-50 % our students could find the job with knowledge acquired at our training center. Especially easy to find job for these students, who acquired high level of language knowledge and computing. (otherwise language and computer training are key elements of our training program.)

Our staff members are 150 persons, all of them are graduated, 6 persons have scientific degree, 48 have doctor degree. With exeption of language lecturers all of our staff members (lecturers) are activ on different field of social and economic life, they are working as top or medium level managers. Choosing our staff members we gave high priority for professional knowledge and because of their managerial practice thay have a lot of fresh information in economics, businesses, law, which they can use in their work.

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- 2 -

These are the reasons that our students - leaving our training center - are well equipped with knowledge of law, regulations and are ready to use them in practice.

Developing our course outlines we gave high priority of business administration. They are licenced and our professional training are based on these course-outlines.

From August 1992 we are experiencing the problems of our unemployed hindering their adjustment to their new lifesituation, and learning.

Further problems: we experience the mismatch between their actual knowledge and the requirement of economic life.

In order to overcome these difficulties

- Before starting our training program we introduce the so called motivation training. During the motivation training the students got help for learning and durint our role play they will be able to make a final decision or they are ready to correct their decision.

- In the framework of our training programs we try to decrease the differences in their knowledge levels about the economic life.

For those, who have never met with computing we are ready to organise extra courses for learning together with another course "the language of computer is English".

In our experiences these preliminary courses are very usefull helping the efficiency of our training and acquiering professional knowledge.

We are entrepreneurs. We are plowing back our profit to developpe the conditions of training. The profit usage plan for 1993 and 1994 is the same. Plowing back our profit we hope that we can do a qualitativ training, we can help to find jobs for our students and last bat not least we can keep our market share.

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Profile
or why am I interested in franchise?

Personal data

Name: Peter Dominus, age 38 Address 2011 Budakalász, Lejtő u 7 Phone/Fax.
+361 2018355 I have been married, my wife is a teacher. We live in our house with
five children, in Budakalász, two miles from Budapest to the north

Education:

- Technical College, Faculty of Electrical Engineering, special knowledge of telecommunications and computer
- Video course of Ministry of Education, certificate of category C
- Middle level state certificate of English.

Expenience.

In the past ten years I had activities in computer engineering, in cosmetic production and video too, including a four years period as a lecturer in the International Computer Education Centre. For three years I worked in the Control Commission of National Association of Entrepreneurs, I had several publications in topic video and marketing strategies. The last, concerning the franchise as a powerful future in post communist countries. I have assisted the Alphagraphics Hungary for a year as marketing manager

Companies:

I'm involved in two companies

MorphoLogic Ltd. - general manager and owner (10% of shares).

D & M Ltd - general manager and owner (50% of shares)

MorphoLogic Ltd is a software house, founded two years ago with three partners. The original aim was to establish a company for Hungarian linguistic software, e.g. spell checker, Thesaurus, machine translation and grammar checking. The company had success, we marketed a program family called Helyes-e? (Is it right?), the revenue from 3 million HUF (35.000 USD) of the first year estimated to 15 million HUF (105.000 USD) in 1993. Our spell checker is built in the Hungarian version of the best seller word processors (WordPerfect, XyWrite, AmiPro, Winword, etc.). We have contract with LOTUS and Microsoft for further development, and just now we started a project with the European Community for machine translation. We have some special references, such Ministry of Foreign Affairs, Office of Prime Minister, Hungarian Telecommunication Co.

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D & M Ltd is a part of M A N. Trading Holding a private company for cosmetic and household detergents trading, including an own multilevel system. D & M is the production company with an estimated 40 million HUF (470.000 USD) revenue in this year. This company is rather new (one year old), but previously I was the owner of the DOMINE Ltd, which was the very first private company in this sector 10 years ago. The product line of about 40 various natural based skincare products took a lot of jobs to produce the packaging, pricing, advertisement, flyers, promotions and international fairs and exhibitions.

The D & M Ltd. is rapidly growing, a new site of 700 sqm started to work to base the higher capacity needed to serve the M A N. network.

Budakalász, 05/24/93



Peter Dominus

**BUDAAR**[®]
BUDAÁR SZÁLLÓDÁ ÉS VENDÉGLŐDŐ IRT.



Dear Guests!

We would be pleased, if you could become acquainted with the restaurants, bars, confectioneries, buffets, beer-houses and espressos of the Budavár Shareholding Company. Our aim is to help you achieve this goal with this prospectus

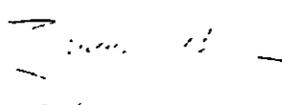
Our Company is anxious to provide adequate services to satisfy the needs of both our domestic customers and foreign guests visiting our country.

Our shops will provide you with the highest standard services available independent of the categories to which they belong.

We can always serve our guests to their satisfaction and we strive to provide pleasant food, drinks and entertainments to all the strata of the society.

We would be pleased if you would honour us with your confidence by visiting our first class shops as well as all our other smaller catering establishment listed in this prospectus.

We thank you in advance for your trust in us


Mrs. BUDAVARI, MARLA EFF
President
Managing Director


ANIKO MAYER Ms.
Marketing-Commercial
Director

**Criteria and Process for Selection of
Prospective Franchisees, Master Licensees and Investors**

Criteria and Process for Selection of Prospective Franchisees Master Licensees and Investors

1. Source of suggested company's or individual's name. If initiated or suggested by third party (e.g.; bank, consulting firm), information on criteria used by third party.
2. Evaluation or review of information received.
 - a. Business background.
 - b. Compatibility with business sector of prospect's interest.
 - c. Financial capacity.
 - d. Familiarity with franchising as a technique.
3. Availability of franchisors in sectors in which interest expressed.
4. Interview of prospective franchisee.
 - a. If from Budapest, in person.
 - b. If from distant city, by telephone.
5. Communications between the parties--
 - a. Translation of selected material about franchisor into Hungarian.
 - b. Encouragement to franchisor to provide supplementary information.
 - c. Emphasis upon receipt of information about prospective franchisee into English, wherever practicable.
 - d. Insistence upon franchisor's use of translator (arranged by EastEuropeLaw; paid for by franchisor).

Letter to U.S. Franchisors Attending Budapest Meeting



June 21, 1993

Franchise Business Meeting

Statistical Data

1. Number of companies applied: 59
2. Invited/Accepted: 35
3. Breakdown
 - 1 franchisee meeting with one franchisor: 21
 - 2 franchisee meeting with two franchisors: 11
 - 3 franchisee meeting with three franchisors or more: 3
4.
 - 1 franchisors meeting with 6 franchisees: Barbers,
 - 2 franchisors meeting with 7 franchisees: Ziebart, Rainbow, Future Kids
 - 3 franchisors meeting with 8 franchisees: Speedy, Arby's, Decorating Den, Big Boy
5. Franchisee information:
 - 33 companies sent information
 - 15 in English
 - 18 in Hungarian
6. Franchisees arriving from 9 different cities:
 - Budapest: 25
 - Pécs, Szeged: 2
 - Eger, Tatabánya, Paks, Győr, Szombathely, Budakalász: 1
7. Total number of meetings scheduled: 59

Statistical Data (continued)

8. Rejected Franchisees: 24

9. Applicants for Subway: 12

10. Applicants for Midas: 6

ARBY'S

- 9.30-10.30 Saláta King
10.30-11.30 Délpesti Vendéglátó Váll.
11.30-12.00 Budavár RT
12.00-12.30 Sasad RT

14.00-15.00 Mecseki Vend. Váll.
15.00-16.00 Eger East-West RT
16.00-16.30 Gasztro- Kristály
16.30-17.00 Coopinform

THE BARBERS

9.30-10.30 Trading kft

10.30-11.30 Zsáner kft

11.30-12.30 Bartal Pál

14.00-15.00 Super fej RT

15.00-16.00 Délbudai Fodrász Szöv.

16.00-17.00 Rákos Mezeje RT

DECORATING DEN

- 9.30-10.00 VAM Design
10.00-10.30 Belsőépítész kft
10.30-11.30 Royal Bútor RT
11.30-12.00 IQ
12.00-12.30 Charley Studio
14.00-15.00 Délpesti Ép. Szolg Közös Váll.
15.00-16.00 Lexicor
16.00-16.30 Eger East-West RT
16.30-17.00 Gentleman kft

FUTURE KIDS

9.30-10.30 Idex-Inter ED

10.30-11.30 Coopinform

11.30-12.30 Intel-Comp

14.00-14.30 A-tech

14.30-15.00 Szoma kft

15.00-16.00 Számalk

16.00-17.00 Trading kft

RAINBOW INTERNATIONAL

9.30-10.30 Royal Bútor RT

10.30-11.30 Délpesti Ép. Szolg. Közös Váll.

11.30-12.30 Coopinform

14.00-14.30 Probitas

14.30-15.00 Gentleman kft

15.00-16.00 Szőnyegtisztító kft

16.00-17.00 Lexicor

ZIEBART TIDY CAR

9.30 -10.30 Délpesti Ép. Szolg. Közös Váll.

10.30-11.30 Duna Interservice

11.30-12.30 Kulner kft

14.00-15.00 Auto-Mobil kft

15.00-15.30 Neményi RT

15.30-16.00 Primaut

16.00-17.00 Delta Popp

Materials Given to Hungarian Attendees,
Budapest Meeting, June 21, 1993

EASTEUROPELAW, Ltd.

East-West Business Center
Pf 300/25
Rákóczi ut 1-3
1088 Budapest
Hungary
Tamas Kovacs
Telephone (36-1) 266-4979
Telefax (36-1) 266-6360

Affiliations

Brownstein Zeidman and Lore, Washington, D C
Martin Mandelsohn, London
Rudnick & Wolfe, Chicago

Dear Franchisor:

Welcome to the first business and investment "match" ever held in Central and Eastern Europe for North American franchisors, to meet prospective investors, franchisees and master licensees. This is the culmination of the EastEuropeLaw/U.S. Agency for International Development franchising project, and I am pleased to report that it appears to be a great success: we have been required to decline both the requests of additional franchisors to participate (because they were too late for us to accommodate them) and the requests of additional franchisees to participate (because their demand exceeded the time available for each franchisor).

I am enclosing a copy of my last fax on this subject from the United States. The details of both the cocktail reception on Sunday night, June 20 and the June 21 meeting remain unchanged. I am also enclosing some additional materials which may be useful for your files.

Enclosed you will find the schedule of appointments we have arranged for you, together with such background information as we have received on those with whom you will be meeting. While it is, of course, not feasible to do "background checks" on these prospective franchisees, we think you will be pleasantly surprised by their caliber and level of interest. In all cases, more franchisees expressed an interest in your company than could be accommodated; and, therefore, it has been necessary to decline their requests.

Finally, a reminder that EastEuropeLaw is here to serve your needs. I will be available through June 21 at the Kempinski Hotel (telephone 266-1000; fax 266-2000). In addition, Michelle Andrae and Kathy Cummings of our Washington office will be available to assist you (Astoria Hotel, telephone 117-3411; fax 118-6798).

EASTEUROPELAW, Ltd.

Tamas Kovacs of our Budapest office (telephone 266-4979; fax 266-6360) will, of course, be available through June 21 and beyond. And David Koch, an attorney who specializes in franchise law in our Washington office will be here for the June 20-21 activities and will remain in Budapest thereafter for some transactional work (telephone 117-3411; fax 118-6798). If we can be of assistance to you, please let us know; and, in any event, I hope you will meet all of our people on June 20-21

Again, welcome to Budapest, and to the growing world of franchising in Central and Eastern Europe. EastEuropeLaw has made a major commitment to serving the legal and business needs of franchisors entering the region, and we look forward to working with you.

Sincerely,

A handwritten signature in cursive script that reads "Philip F. Zeidman". The signature is written in dark ink and is positioned above the typed name.

Philip F. Zeidman

Enclosures

A small, handwritten mark or signature located in the bottom right corner of the page. It appears to be a stylized set of initials or a signature.

ZIEBART TIDY CAR

9.30 -10.30 Délpesti Ép. Szolg. Közös Váll.

10.30-11.30 Duna Interservice

11.30-12.30 Kulner kft

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15.00-15.30 Neményi RT

15.30-16.00 Primaut

16.00-17.00 Delta Popp

Materials Given to Hungarian Attendees,
Budapest Meeting, June 21, 1993

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EastEuropeLaw, Ltd.

East-West Business Center
1088 Budapest,
Rákóczi út 1-3.
Telefon: 266-4979
Fax: 266-6360

Az EastEuropeLaw, Ltd.

független amerikai és angol ügyvédek és ügyvédi irodák közös vállalkozása.
Működési területe a Közép- és Kelet-Európában,
elsősorban Magyarországon, Csehországban, Szlovákiában
és Lengyelországban jelentkező új üzleti,
vállalkozói és oktatásügyi kezdeményezések támogatását fogja át.

Az EastEuropeLaw, Ltd.

felépítése

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társulajdonos, igazgató
Brownstein, Zeidman and Lore
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Washington, D. C. 20005
U.S.A.

Telefon: (1-202) 879-5770
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Lewis G. Rudnick, ügyvéd
társulajdonos, igazgató
Rudnick & Wolfe
203 N. La Salle Street
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Az
EastEuropeLaw, Ltd.

*a változófelben lévő közép- és kelet-európai piacokkal
ismerkedő franchise átadók,*

• • •

*az ezeken a piacokon építési vállalkozásokban és
kereskedelmi fejlesztésben érdekelt ingatlanügynökségek,
pénzügyi és fejlesztő vállalatok,
illetve a felelős minisztériumok,*

• • •

*a közép- és kelet-európai cégek, valamint
a térségben működő,
vagy újonnan érkező amerikai vállalatok közötti
ügymenet zökkenőmentes lebonyolításban érdekelt
vállalkozások,*

• • •

*illetve a térség – a franchise és a privatizáció
kapcsolatát szem előtt tartó – kormányhivatalai*

**számára a következő szolgáltatásokat
nyújtja:**

- Jogi tanácsadás
- Általános tanácsadás franchise ügyekkel kapcsolatban
- Franchise partnerközvetítés
Magyarországon, Európában és Amerikában
- A franchise iránt érdeklődő magyar vállalatok és vállalkozók
(franchise átvevők, franchise átadók stb.)
képviselése Magyarországon és Európában

Cégünk Kelet-Európa iránti érdeklődését, valamint működési és szakértői területét legjobban talán a franchise-ról, illetve az EastEuropeLaw, Ltd.-ről az elmúlt hónapokban írott cikkek mutatják be. Íme egy rövid válogatás a számos megjelent írás közül:

„A franchise egyedülálló módon alkalmas új vállalkozások alapítására Kelet-Európa változó gazdaságaiban – nyilatkozta lapunknak egy magyarországi, csehszlovákiai és lengyelországi franchise tapasztalatokkal rendelkező ügyvéd Ezen országok fogyasztói különösen nyitottak olyan új áruk és szolgáltatások befogadására, amelyeknek piaci bevezetésére a franchise az egyik legalkalmasabb módszer – jelentette ki Philip F. Zeidman, a washingtoni illetőségű Brownstein Zeidman and Lore ügyvédi iroda és az EastEuropeLaw, Ltd. társtulajdonosa – Kelet-Európa országokban a kisvállalkozások jelentős hagyományokkal rendelkeznek, amelyeket azonban mesterségesen elsorvasztottak a kommunista tervgazdaság időszakában – mondta Zeidman..”

Bureau of National Affairs, 1992. március 30

„1993. január 26-án és 27-én két szokatlan konferencia kerül megrendezésre Budapesten... Az egésznapos találkozón – melyet az EastEuropeLaw, Ltd. -vel együttműködésben az OTP (Magyarország legnagyobb lakossági bankja) támogat – a franchise módszer lesz a központi téma. A konferencián várhatóan részt vesz az Állami Vagyonügynökség magyarországi vállalatok és magyar, valamint amerikai franchise vállalkozások képviselői is...”

Az AGROBANK által támogatott konferencia meghívottjai közé tartoznak a magyarországi élelmiszer- és vendéglátóipar alapanyagfeldolgozói, beszállítói, forgalmazói és szakértői is...”

Részlet egy 1993. januári sajtóanyagból

Európa poszt-kommunista országai mindegyikében a franchise különleges előnyöket kínál a külföldi vállalkozások számára. Sok ország számára ez az egyetlen módszer az államilag irányított és kimerített központi terjesztési rendszer félreállítására...

A franchise-nak azonban egyéb előnyei is vannak:

A franchise átvevők megismerkednek egy nyugati értékesítési technológiával és szolgáltatói módszerrel, amelyek birtokában előnyre tehetnek szert a helyi konkurenciával szemben... Egyszerűbbé válik a minőség és az ár ellenőrzése.

A franchise csökkenti a befektetési kockázatot, ugyanakkor a vegyes vállalatok alapítása jelentős tőkeigénnyel és átláthatatlan jogi komplikációkkal járhat.

A franchise lényegesen alacsonyabb költséggel képes egy terméket, illetve értékesítési módszert megismertetni a fogyasztóval.

A franchise az ideális pszichológiai módszer a változó Kelet-Európa születőfélben lévő, és a kockázatokra különösen érzékeny vállalkozórétege számára – nyilatkozta lapunknak Fazekas Endre, a magyarországi McDonald's ügyvezető igazgatója.”

The Economist, 1991. április 6

Franchise – egyedülálló lehetőség a vállalkozásban

Az Egyesült Államok kormánya a Nemzetközi Fejlesztések Hivatalát (A.I.D.) bízta meg azzal, hogy dolgozzon ki hatékony programot a franchise kelet-európai fejlesztésére és a privatizációs tolyamatban való szerepének megismertetésére

A program megvalósítására a nemzetközi tekintélyű, s a franchise-ban igen nagy gyakorlattal rendelkező EastEuropeLaw, Ltd. kapott megbízást. Ez az egyedülálló kezdeményezés az Egyesült Államok kormányának első közvetlen támogatása a franchise elterjesztése érdekében.

A projekt magában foglalja konferenciák rendezését Magyarországon és az Egyesült Államokban, szakmai anyagok és tanulmányok készítését és terjesztését a két ország vállalkozói, a tömegkommunikációs eszközök és a kormányok számára, valamint a magyarországi befektetők és amerikai franchise átadók közötti kapcsolatok létrehozása érdekében tett folyamatos erőfeszítéseket.

A franchise előnyei

„A franchise és a szolgáltató szektor egyéb vállalkozásai magától értetődően hosszútávú és alapvető előnyökkel szolgálnak, mert

- jelentős munkahelyteremtő kapacitással bírnak;
- viszonylag egyszerű, alacsony kockázatú módszerek a külföldi tőke bevonására egy bizonytalan piacon;
- gyors terjeszkedést biztosítanak;
- megteremtik a know-how, a technológia, a betanítás és továbbképzés, valamint az üzletvezetési módszerek gyors átadásának lehetőségét;
- a master franchise rendszereket (mint pl. egy privatizált hotel-lánc) bekapcsolja a hasonló rendszerek hálózatába szerte a világon, biztosítva ezáltal a már hatásosan működő franchise-ok előnyeit és tapasztalatainak átadását.”

East/West Executive Guide, 1993 január

„Amerikai franchise vállalatok képviselőinek eddigi legnagyobb csoportja érkezik Közép-Európába, hogy június 21-én Budapesten találkozzon az amerikai termékek, szolgáltatások és franchise megoldások iránt érdeklődő magyarországi befektetőkkel és potenciális master franchise átvevőkkel. Az egynapos konferencia kiemelkedő eseménye »A franchise Közép- és Kelet-Európában: Magyarország« nevű programnak, melyet két, nemzetközi franchise-zal foglalkozó szervezet, az Egyesült Államok Nemzetközi Fejlesztések Hivatala (A.I.D.) és a Budapesten bejegyzett EastEuropeLaw, Ltd. kilenc hónappal ezelőtt indított útjára.”

Részlet a Nemzetközi Franchise Kiállítás sajtóanyagából, 1993. április

Az Egyesült Államok Nemzetközi Fejlesztések Hivatala (A.I.D.)
védnöksége alatt futó program keretén belül
– a cseh, a szlovák, illetve az orosz kormányok felkérésére –
az EastEuropeLaw, Ltd. tevékenyen részt vett ezen országok
lakásügyi törvényeinek kidolgozásában, különös tekintettel
a magántulajdonban lévő vagy kerülő épületek törvényi
szabályzásának előkészítésére Csehországban és Szlovákiában,
valamint egy egységes lakásügyi törvény összeállítására
Oroszországban...

Az EastEuropeLaw, Ltd. és partnerirodái konferenciák rendszeres
szervezésével (legutóbb Bulgáriában és Szlovéniában) segíti elő a
franchising és a privatizáció előmenetelét Kelet-Európában. Emellett
természetesen változatlanul áll egyéni ügyfelei rendelkezésére
franchise-, ingatlanpiaci és egyéb üzleti tanácsadó szolgáltatásaival.

Az EastEuropeLaw, Ltd. munkatársai szívesen állnak az
Ön rendelkezésére is.

Ha úgy látja, hogy tudunk Önnek segíteni üzleti tervei
megvalósításában Kelet-Európa országaiban, kérjük
keressen fel bennünket valamelyik irodánkban.

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Tisztelt Jövőbeli Franchise Átvevő!

Üdvözljük Önt az első -- kelet-európai és amerikai üzletemberek között megrendezésre kerülő -- franchise találkozó alkalmából, mely lehetőséget biztosít a befektetni szándékozó vállalkozók és franchise-, illetve master franchise átvevők számára a franchise átadók közelebbi megismerésére.

A találkozó az EastEuropeLaw, Ltd. ügyvédi iroda és az Egyesült Államok Nemzetközi Fejlesztések Hivatala (A.I.D.) által kezdeményezett franchise projekt kiemelkedő eseménye. Büszkén jelenthetem ki, hogy a rendezvény iránt a vártnál sokkal nagyobb érdeklődés mutatkozik. Számos franchise átadó jelentkezését vissza kellett utasítanunk, mert későn jelezték részvételi szándékukat és ugyancsak számos franchise átvevőnek kellett nemet mondanunk a találkozó rendelkezésére álló idő szűkössége miatt.

Mellékelve küldöm Önnek a találkozó időbeosztását, mely részletesen tartalmazza a franchise átadók neveit és a megbeszélések időpontjait. Amennyiben a megbeszélések időtartamáról külön említés nem esik, úgy ezek hossza találkozóként egységesen valamivel kevesebb, mint fél óra. Valószínűleg rendelkezésére állnak már információk a franchise átadókról, akikkel találkozni kíván, így a személyes megbeszélés lehetőséget nyújt majd ezek elmélyítésére. Mindazon információkat, melyeket az EastEuropeLaw-nak átadott, továbbítottuk a franchise átadó(k)nak.

A találkozó programján kívül tisztelettel küldöm Önnek az alábbi néhány apróságot, melyeknek remélem hasznát látja majd:

- * Az első -- a franchise tárgyában magyar nyelven kiadott -- könyvet,
- * egy rövid ismertetőt az EastEuropeLaw, Ltd. ügyvédi irodáról, valamint
- * a "Some Thoughts About International Franchising for the Prospective Investor on Master Licensee" című angol nyelvű tanulmányt, mely ugyan eredetileg az ez évben Washingtonban megrendezésre került Nemzetközi Franchise Kiállítás külföldi érdeklődői számára készült összeállítás, de Ön is minden bizonnyal talál benne hasznos információkat.

Végezetül szeretném ezt az alkalmat kihasználni, hogy bemutassam Önnek az EastEuropeLaw, Ltd. ügyvédi irodát. Remélem, hogy június 21-én lesz alkalma találkozni washingtoni irodánk munkatársaival, budapesti irodánk vezetőjével, Dr. Kovács Tamással (akivel már bizonyára többször is beszélt) és jómagammal, aki itteni irodánk megnyitása óta már legalább egy tucatszor jártam Budapesten.

Függetlenül attól, hogy a június 21-i megbeszélések üzletkötéssel záródnak-e, vagy csak információgyűjtést szolgálnak, remélem, hogy sikerül maradéktalanul rendelkezésére álljunk jogi természetű és egyéb igényei kielégítésében.

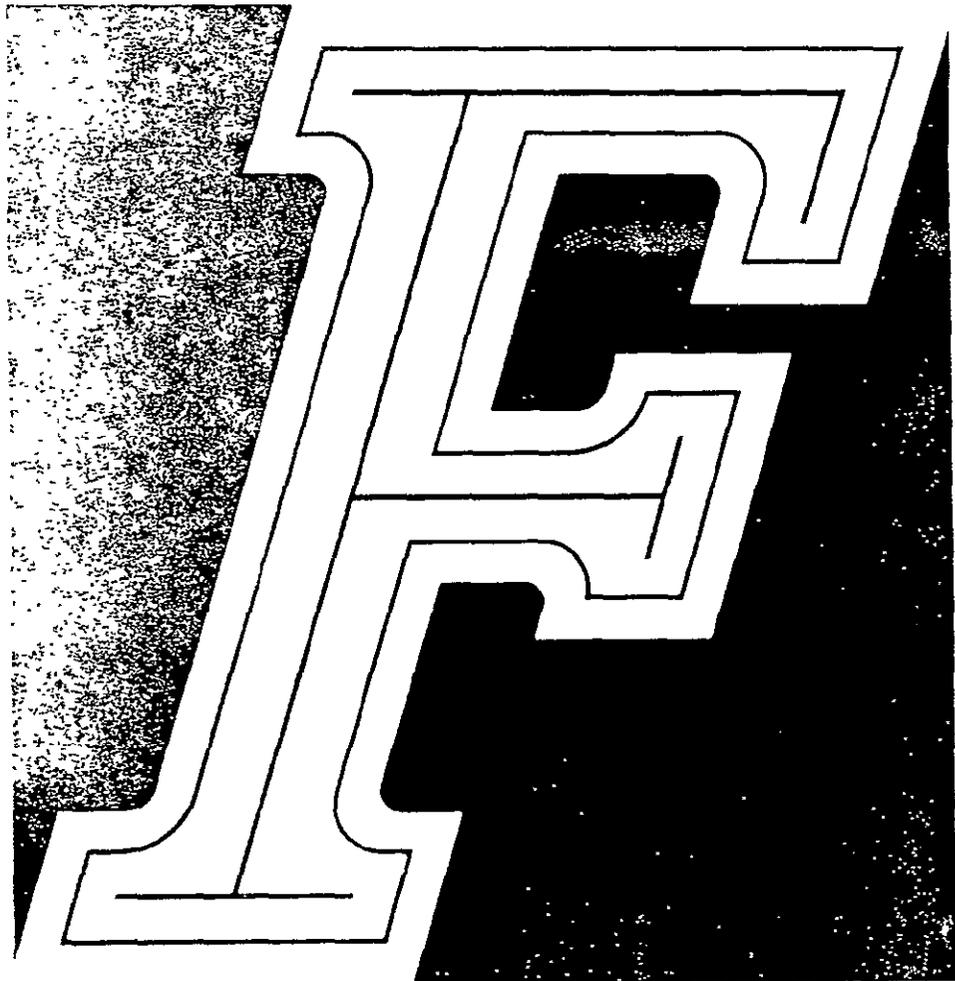
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Philip F. Zeidman

1993
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FRANCHISE

Ért a sikeres vállalkozáshoz



MARKETING MENEDZSER KÖZPONT

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ELŐSZÓ

1990 áprilisában abban a megtiszteltetésben volt részem, hogy előadótársat részi vehettem az I. Magyarországi Franchise Fórumon. Ez volt az első alkalom Közép- és Kelet-Európában, amikor lehetőség nyílt a franchise bemutatására. Az előadássorozat legmaradandóbb emléke számomra, hogy a zömében állami vállalatok képviselőiből álló hallgatóság szinte ki volt éhezve az információkra. Nem tudtam elegendő mennyiségű ismeretanyagot nyújtani számukra, amely ezt a rendkívül nagy éhséget csillapítani tudta volna.

Arra gondoltam, mennyire fontos és hasznos lenne, ha a franchise-ról magyar nyelvű írásos anyagok is a hallgatóság rendelkezésére állnának. Nemcsak ezen a fórumon való felhasználásra, hanem a téma iránt érdeklődők sokkal szélesebb köre számára is. És most, nem egészen egy évvel később, megszületett ez a munka, amelynek célja a franchise-zal kapcsolatos legfontosabb ismeretek bemutatása.

Az elmúlt évben Közép- és Kelet-Európában tett utazásaim során megértettem, hogy ez a fajta "éhség" nemcsak Magyarországra, hanem e térség többi országaira is jellemző. Egy nemzet, amelynek csaknem két generációja el volt zárva annak lehetőségétől, hogy tehetséges polgárai kibontakoztathassák természetes adottságaikat üzleti vállalkozások létrehozásában és sikeres működtetésében, ösztönösen sóvárog az információ minden morzsája után, amely ilyen tapasztalatokkal ismerteti meg. Más országok pozitív példái azt sugallják számára — amit az elmúlt 40 év minden ilyen irányú próbálkozást elnyomó rendszere csak negatívumként említett —, hogy önálló, egyéni vállalkozóként is érhet el jelentős üzleti sikereket. Az egyén személyes boldogulása és gazdagodása révén pedig az egész társadalom gazdagodik és előbbre jut.

bert. Talán megadhatja a választ erre a kérdésre a fejlődésre és megújulásra szinte korlátlanul képes franchise, amelyet sokan a jövő vállalkozási formájának tartanak.

*Philip F. Zeidman*¹

Budapest, 1991 január

¹ *Dr. Philip F. Zeidman*, ügyvéd (Washington, D.C.), az International Franchise Association általános tanácsadója, a franchise világszerte egyik legelismertebb szakértője. Az East Europe Law Budapest befektetési iroda egyik alapítója, amely segíti a franchise elterjedését Közép- és Kelet-Európában.

**Material Given to U.S. Franchisors Attending
Budapest Meeting, June 21, 1993**

II

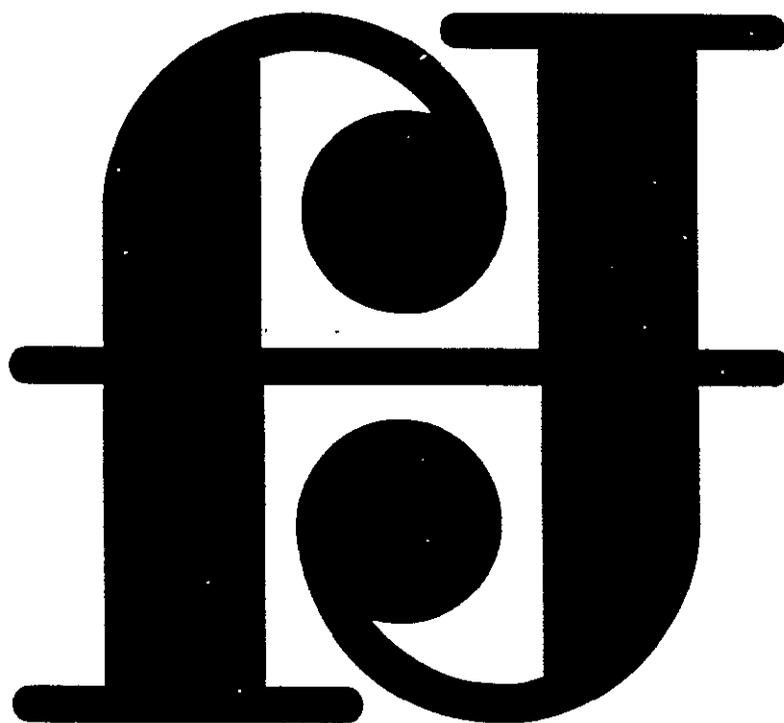
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for International Development*

*A Meeting for U.S. Franchisors and
Prospective Hungarian Investors*

Budapest June 21, 1993



**FRANCHISE
ÉVKÖNYV • YEARBOOK
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Preface

Today a growing number of people in Hungary are considering setting up their own enterprises, many are dreaming of becoming their own bosses, but they are taking the first steps towards becoming an entrepreneur with great difficulty for partly being afraid of failure and partly due to the lack of conditions, namely the lack of entrepreneurial knowledge and financial resources. At the same time one type of enterprise, franchise, helps these dreams to become true. This Yearbook has one objective: to help these plans to be put into reality, to give foothold for those who are interested in starting a franchise business.

The Hungarian Franchise Association has begun its full operations in 1993. In practice this means that we would like to spread knowledge about franchising, and also would like to make franchise a real possibility for all those interested in it. At the same time, we do not forget those either, who are already operating a franchise type of business, for those we would like to create such an operational environment which more and more resembles the franchise environment and practice in the West. All the events organized by us, all our publications, as well as the work conducted in our working committees have this single objective.

In other words, our basic objective is to create a market for franchise. Market in this context means the presence, the supply of the systems to be adapted, as well as the circle of those interested in adapting franchise. The shaping of the market is in the interest of both those who are already franchisors and of those entrepreneurs who are franchisees. The objective of the franchisor is to have as big a network of his own system as possible, while the objective of the franchisee is to have as great a choice as possible between franchise systems within the scope of his interest and financial possibilities. Furthermore, the development and market building possibility can also be interesting for the entrepreneur who would like to share his suc-

cess with others who share their secret of success and also the financial secret with him. This is how basically the new franchise systems and networks come into being. But the players in the game called franchise market have to be prepared and gain knowledge on the legal frame and forms of conduct characteristic to this kind of market, regardless of whether he or she is a franchisor or a franchisee. The Yearbook also would like to help in gaining this kind of knowledge.

The Hungarian Franchise Association, as a full member of the European Franchise Federation (EFF, Paris) receives a tremendous professional help in its activities, while a further help is given to it by the International Franchise Association based in Washington, as well as by other national associations that it already has a good working relationship with. This publication is bilingual for we would like to raise the interest of not only those already present in the Hungarian market but also of other foreign franchisors in order to bring them into the country. In other words we would like to create such an environment in which the potential Hungarian franchisee could choose between many franchise licenses. So we would like to introduce the Hungarian franchise market to the potential foreign participants, as well.

The First Hungarian Franchise Yearbook could not have been brought into being without the help of the Trade Development Fund of the Hungarian Ministry of International Trade Relations and without the sponsoring of the K&H Commercial Bank Ltd. The Hungarian Franchise Association would like to express its utmost gratitude to them and to all those who have helped its activities.

April, 1993

Endre Fazekas
President
of the Hungarian Franchise Association

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~~EastEuropeLaw Ltd.~~

Az EastEuropeLaw Ltd. független amerikai és angol ügyvédi irodák együttes vállalkozása, melynek első kelet-európai irodája Budapesten működik.

Az EastEuropeLaw Ltd. jogi és üzleti tanácsadással segíti a franchise iránt érdeklődő magyar vállalkozókat és vállalatokat, valamint a Kelet- és Közép-Európa új piacaira belépni kívánó nemzetközi franchise vállalatokat.

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HIRDETÉS

**Letters Sent to U.S. Franchisors
Following June 21 Meeting**

III

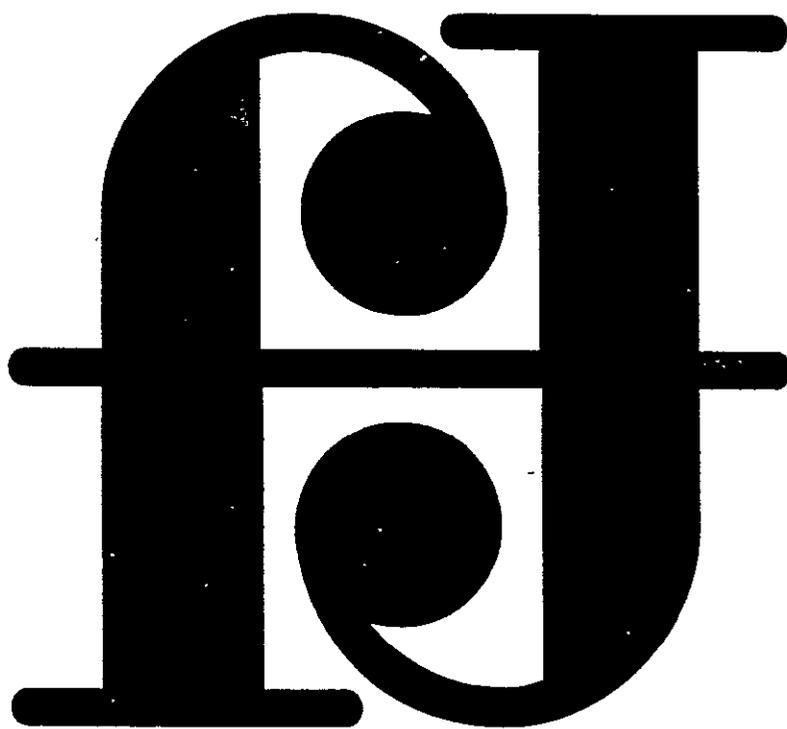
*EastEuropeLaw, Ltd.-U.S. Agency
for International Development*

*A Meeting for U.S. Franchisors and
Prospective Hungarian Investors*

Budapest June 21, 1993



**FRANCHISE
ÉVKÖNYV • YEARBOOK
1993/94**



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Preface

Today a growing number of people in Hungary are considering setting up their own enterprises; many are dreaming of becoming their own bosses, but they are taking the first steps towards becoming an entrepreneur with great difficulty for partly being afraid of failure and partly due to the lack of conditions, namely the lack of entrepreneurial knowledge and financial resources. At the same time one type of enterprise, franchise, helps these dreams to become true. This Yearbook has one objective: to help these plans to be put into reality, to give foothold for those who are interested in starting a franchise business.

The Hungarian Franchise Association has begun its full operations in 1993. In practice this means that we would like to spread knowledge about franchising, and also would like to make franchise a real possibility for all those interested in it. At the same time, we do not forget those either, who are already operating a franchise type of business, for those we would like to create such an operational environment which more and more resembles the franchise environment and practice in the West. All the events organized by us, all our publications, as well as the work conducted in our working committees have this single objective.

In other words, our basic objective is to create a market for franchise. Market in this context means the presence, the supply of the systems to be adapted, as well as the circle of those interested in adapting franchise. The shaping of the market is in the interest of both those who are already franchisors and of those entrepreneurs who are franchisees. The objective of the franchisor is to have as big a network of his own system as possible, while the objective of the franchisee is to have as great a choice as possible between franchise systems within the scope of his interest and financial possibilities. Furthermore, the development and market building possibility can also be interesting for the entrepreneur who would like to share his suc-

cess with others who share their secret of success and also the financial secret with him. This is how basically the new franchise systems and networks come into being. But the players in the game called franchise market have to be prepared and gain knowledge on the legal frame and forms of conduct characteristic to this kind of market, regardless of whether he or she is a franchisor or a franchisee. The Yearbook also would like to help in gaining this kind of knowledge.

The Hungarian Franchise Association, as a full member of the European Franchise Federation (EFF Paris) receives a tremendous professional help in its activities, while a further help is given to it by the International Franchise Association based in Washington, as well as by other national associations that it already has a good working relationship with. This publication is bilingual for we would like to raise the interest of not only those already present in the Hungarian market but also of other foreign franchisors in order to bring them into the country. In other words, we would like to create such an environment in which the potential Hungarian franchisee could choose between many franchise licenses. So we would like to introduce the Hungarian franchise market to the potential foreign participants, as well.

The First Hungarian Franchise Yearbook could not have been brought into being without the help of the Trade Development Fund of the Hungarian Ministry of International Trade Relations and without the sponsoring of the K&H Commercial Bank Ltd. The Hungarian Franchise Association would like to express its utmost gratitude to them and to all those who have helped its activities.

April, 1993

Endre Fazekas
President
of the Hungarian Franchise Association

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EastEuropeLaw Ltd.

Az EastEuropeLaw Ltd. független amerikai és angol ügyvédi irodák együttes vállalkozása, melynek első kelet-európai irodája Budapesten működik.

Az EastEuropeLaw Ltd. jogi és üzleti tanácsadással segíti a franchise iránt érdeklődő magyar vállalkozókat és vállalatokat, valamint a Kelet- és Közép-Európa új piacaira belépni kívánó nemzetközi franchise vállalatokat.

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HIRDETÉS



1993-06-23

MAGYAR HÍRLAP

Franchise-találkozó Budapesten

Az eddigi legnépesebb amerikai franchise-szakértői csoport tartja ma egész napos üzleti találkozót potenciális magyar rendszerátvevőkkel Budapesten. Az amerikai érdeklődés hazánk iránt nem véletlen — Magyarországon már több mint 150 franchise-rendszer működik igaz, mintegy fele hazai fejlesztésű.

A Franchise Közép- és Kelet-Európában, Magyarország nevet viselő projekt részeként tartják ma a találkozót. A projektet az Egyesült Államok Nemzetközi Fejlesztési Ügynöksége (USAID) és a budapesti székhelvű, nemzetközi franchise-ra szakosodott ügyvédi iroda, az East-Europe Law, Ltd. kilenc hónappal eze

indította útjára. Célja, hogy Magyarországon tovább népszerűsítse a világon elterjedt franchise-üzemeltetési formát, illetve hogy bemutasson olyan franchise-rendszereket, amelyek másutt már nagy sikereket értek el. Köztük bemutatkozik a gépjárműtartók és szolgáltatások franchise-rendszerű kereskedőhálózata, a Ziebart Tidy Car; a Midas International Corporation autójavító hálózata; a szőnyeg- és bútorkárpit-tisztító Rainbow International; a Big Boy Restaurant System; a marhasültre specializálódott Arby's; vagy éppen a City Looks by the Barbers hajszalon-hálózat.

• N. V. Zs. •

❖ Beszivárgó Amerika

Rangos, egynapos üzleti találkozót rendeznek ma Budapesten. Eddig még soha nem járt nálunk ilyen szintű amerikai üzletemberekből álló küldöttség, amely újvilági termékek, szolgáltatások és franchise megoldások iránt érdeklődő magyar befektetőkkel találkozik.

Széles a választék, amivel az amerikaiak megpróbálnak beszivárogni a magyar gazdaságba az EastEurope Law. Ltd. által összehozott találkozón.

1993. június 21., hétfő

MAI NAP

SIKER RENDSZERDÍJ

A FRANCHISE (EJTSD. FRENCSÁJZ) lényegében *licenchereskedelem* megállapodás aminek értelmében egy vállalat (franchisor, azaz átadó) jogot ad egy másik vállalatnak (franchisee azaz átvevő) arra, hogy bizonyos üzleti tevékenységet az átadó üzletpolitikájával, gyakorlatával, eljárásával és az általa bevezetett árukkal összhangban folytasson.

A franchise olyan vállalkozási csomagot nyújt át, amely hosszú időn szabványolja a franchisee sikerét. A csomagban benne van a teljes know how beleértve a szakmai irányelveket és a marketinget is.

A franchise-nak jelentős a munkahelyteremtő képessége, ebbe a körbe gyakran lépnek be családi vállalkozások. Az ilyen formában beinduló vállalkozások sokkal-sikeresebbek, mint az önállóak statisztikailag kimutatható, hogy harmadannyi franchise megy tönkre, mint a más formában működő cég. Másrészt: az üzletember saját vállalkozásában megvalósítja ötletét, bevezeti a márkanévet, reklámozza, sikerre viszi. Rendszergazdává akkor válik, amikor a bevált ötletet a bevezetett márkánévvvel, tapasztalatokkal együtt átulja olyanoknak, akik saját tőkájükkel fejlesztik tovább a rendszergazda által elindított hálózatot. Az átvevők önálló vállalkozók maradnak, csupán a rendszerre fejlesztett siker használatáért fizetnek. Később a rendszergazda már nem az eredeti terméket vagy szolgáltatást értékesíti, hanem a know-how-t.

Ennek a sajátos know-how-piacnak megvannak a szabályai, megvan az üzleti kultúrája. Magyarországon még most is új keletűnek számít ez a vállalkozás-típus. Igazából a Babilonia-McDonald's vegyes vállalat (élrejötté nyomán jelent meg nálunk (habár kezdetben a McDonald's sem franchise formában működött).

Mára sokan felismerték a benne rejlő lehetőségeket, mintegy 150 ilyen típusú vállalkozásban hozzávetőleg 1700 magyar vállalkozó érdekelt.

GRIFF

1993 -06- 1 1

NÉPSZABADSÁG

1993. június 18., péntek

ÜZLETSOR

Franchise-fórum

Amerikai franchise-rendszerek mutatkoznak majd be a magyar befektetők előtt azon a június 21-iki budapesti találkozón, amelyen sor kerül három üzleti szolgáltatás névhasználati jogának felajánlására is

American franchise systems for Hungarian investors

from our correspondent

American franchise systems will be introduced to prospective Hungarian franchisees at a meeting called 'Business and Investment Match' held in Budapest on June 21. The franchise rights of three different service businesses will be offered. The meeting will be held under the auspices of EastEuropeLaw, Ltd., a Budapest-based law firm. The three franchisors attending the meeting include

Rainbow International, a carpet dying and cleaning company, Mr. Rooter, a firm offering plumbing and drain cleaning services, and Worldwide Refinishing, a company that refinishes porcelain and other household surfaces. All three companies are members of The Dwyer Group which operates close to 2,000 franchise units in 20 countries of the world.

Világgazdaság, 6/9/93

Will franchise win attraction? Hungarians like Western ways

American franchise companies wishing to expand their business practices and services in Hungary found the results of talks conducted with potential partners absolutely useful and successful.

In the framework of a project initiated by the U.S. Agency for International Development, a total of seven American entrepreneurs have recently contacted representatives of three dozen Hungarian businesses. With the help of Zarex Kft, a Hungarian company playing a significant role in franchising, the organisational work was undertaken by EastEuropeLaw (EEL), an international law firm engaged in the distribution of franchise systems in Hungary and in legal advising. The meeting was exclusive, details of the talks have not been released.

The Americans represented a number of areas of the service and production sector, ranging from hair- and automobile care to fast food services which, thanks to McDonald's above all, is also gaining a ground in Hungary. EEL's representative

held it fortunate that also Hungarian private companies sought contacts and paved way for relationships with the significant American businesses.

There is a hope that, through Hungarian undertakings, additional American marketing systems will take root in Hungary.

Although the U.S. AID project supporting the expansion of franchising has ended for the moment, further actions promoting franchise systems will soon follow. Based on the significant interest of Hungarian businesses in the one-day meeting (the 35 companies scheduled for talks were pre-selected of 60 applicants) and on master franchise contracts to be signed between Hungarian and foreign companies, it is expected that a number of subfranchisees will join these master franchisors, thus creating a network of trading and service businesses of uniform image and quality in the whole country. 30% of the participants of the American-Hungarian franchise meeting in Budapest came from cities of the countryside.

Magyar Nemzet, 7/1/93

SUCCESSYSTEM FEE

FRANCHISING is essentially a trade of licences: an agreement between two companies within which one of the companies (the franchisor) grants the other (the franchisee) rights to conduct certain businesses in accord to the franchisor's business policy, practice, concepts and products introduced by the franchisor.

The franchisor provides the franchisee with a business package that guarantees the success of the franchise on the long term. The package contains the complete know-how, including business-specific directives and marketing concepts

Franchising significantly aids the creation of jobs. Franchises are often operated by families. Franchise undertakings proved to be more successful than other businesses: statistics show that three times less franchised businesses go bankrupt than non-franchised ones. In other words: in his undertaking the businessman realizes his own idea, introduces the brand name, advertises it and makes it a success. He becomes a franchisor when he passes the successful idea, together with the introduced brand name and his experiences, to those who, by investing their own capital, further develop the network set up by the franchisor. The franchisees remain independent entrepreneurs, they only pay for the use of the successful system. Instead of the original product or service, the franchisor only markets the know-how afterwards.

This particular know-how market has its own rules and its own business culture, however, this type of business is considered a novelty in Hungary. In fact, it first appeared in connection with the creation of the Bábolna-McDonald's joint-venture (although not even McDonald's operated as a franchise business in the beginning).

To date, many discovered the possibilities of franchising: there are about 1,700 Hungarian businessmen with interests in the close to 150 franchised undertakings.

Griff 6/11/93

Franchise Forum

American franchise systems will be introduced to Hungarian investors on June 21 in a Budapest meeting where also franchise rights of three business services will be offered (to interested investors).

Népszabadság 6/18/93

America Infiltrating

A prestigious one-day business meeting will be held in Budapest today. So far, never has an American business delegation of such level visited us, planning to meet with Hungarian investors interested in products, services and franchise techniques of the New World.

Wide is the selection with which the Americans seek to infiltrate into the Hungarian economy with the help of this meeting organized by EastEuropeLaw, Ltd.

Mai Nap 6/21/93

Franchise meeting in Budapest

The largest-so-far delegation of American franchise experts attend a one-day business meeting with potential Hungarian franchisees in Budapest today. The American interest in our country is not an accident: there are over 150 franchise systems operating in Hungary, half of which were developed locally.

The meeting is held as part of the 'Franchise in Central and Eastern Europe: Hungary' project. The project was launched nine months ago by the U.S. Agency for International Development (USAID) and EastEuropeLaw, Ltd., a Budapest-based law firm specializing in

international franchising. The goal of the project is to further promote the widespread concept of franchising, as well as to introduce franchise systems which already gained success elsewhere. These include Ziebart Tidy Car, a network of franchised businesses offering car accessories and protection services, the Midas International Corporation car repairing network, Rainbow International, a carpet cleaning business, Big Boy Restaurant Systems, Arby's, specializing in beef-steaks, and the City Looks by the Barbers network.

Magyar Hírlap 6/21/93

OFFERS OF THE LARGEST INVESTORS New Franchising Program

A largest-so-far group of representatives of franchise systems arrived in Budapest to meet Hungarian investors and potential franchisees interested in American products, services and franchising concepts. The American franchise delegation is claimed by the organizers to be the largest one ever visiting Central Europe.

The one-day meeting is the culmination of the 'Franchising in Central and Eastern Europe: Hungary' project which was launched nine months ago by the U.S. Agency for International Development (USAID) and EastEuropeLaw, Ltd., a Budapest-based law firm specializing in international franchising. The purpose of the project has been to introduce to interested parties the concept of franchising which, functioning highly successfully elsewhere in the world, may

be expected to reach similar results also in Hungary.

Previous meetings, co-sponsored by banks and other organizations have sought to identify potential franchisees in Hungary. A number have already been identified; but, subject to limitation of time, this meeting will provide an additional possibility to interested companies to meet in person with important American franchisors. The American businessmen attending the meeting represent prestigious companies of solid capital. These include car dealers, a car repair chain, clothes, furniture and carpet cleaning services, a special chain of restaurants, a computer company, a chain of barber shops as well as an interior and office decorating service.

Pesti Hírlap 6/22/93

Franchise delegation from overseas

A largest-so-far group of representatives of American franchise systems will soon visit Budapest. The exclusive meeting, planned for seven participants, will introduce to potential Hungarian investors Ziebart Tidy Car, a car accessories marketing business, Rainbow International, interested in on location carpet and furniture cleaning, and Speedy Car-X, Inc. car repair chain.

Two companies came from the catering sector: Big Boy Restaurants Systems, and Arby's, the fast food network specializing in sandwiches. Future Kids' system is based on computer education; the 'City Looks by the Barbers' name depicts hair saloons and the marketing concept to operate them. Representatives of Decorating Den, the first franchised interior and office decorating service, will also come to Budapest.

Világgazdaság 6/18/93

Franchise-delegáció a tengerentúlról

Az amerikai franchise-rendszerek képviselőinek eddigi legnagyobb csoportja látogat a napokban Budapestre. A hétfőre tervezett zártkörű üzleti találkozón potenciális hazai befektetők előtt bemutatkozik a gépjárműtartozékok kereskedelmével foglalkozó Ziebart Tidy Car, a helyszini szőnyeg és kárpittisztításban érdekelt Rainbow International és a Speedy Car-X Inc. autójavító szervizhálózat.

A vendéglátóiparból ketten vannak: a Big Boy Restaurants Systems, illetve a gyorskiszolgálásra specializálódott Arby's szendvicshálózat. A számítógépes oktatásra épül a Future Kids rendszer, míg a City Looks by the Barbers név hajszalont és az ennek működtetéséhez szükséges marketing-rendszert foglal magába. Budapestre jönnek a világ első franchise-rendszerben működő lakásbelső- és irodadekorációs szolgáltatásra létrejött Decorating Den cég képviselői is.

S. Gy.

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Új franchise-program

A. S. P.

Amerikai franchise-rendszerek képviselőinek eddigi legnagyobb csoportja érkezett Budapestre, hogy találkozzon az amerikai termékek, szolgáltatások és franchise-megoldások iránt érdeklődő magyarországi befektetőkkel és potenciális átvevőkkel. A szervezők szerint ez a legnagyobb amerikai franchise-delegáció, amely valaha is Közép-Európába látogatott.

Az egynapos üzleti találkozó kiemelkedő eseménye a „Franchise Közép- és Kelet-Európában: Magyarország” nevű projektnek, amelyet az Egyesült Államok Nemzetközi Fejlesztésének Hivatala (USAID) és a budapesti székhelyű, nemzetközi franchise-ra specializálódott ügyvédi iroda, az East Europe Low Ltd. kilenc hónappal ezelőtt indított útjára. A projekt célja, hogy a franchise-módszert bemutassák az érdeklődőknek, amely egyébként a világ

számos részén kiemelkedő sikerrel működik, s várhatóan hasonló eredményekkel hasznosítható Magyarországon is.

A korábbi bankok és egyéb szervezetek által is támogatott találkozók már megkísérelték felmérni és számba venni a potenciális franchise-átvevők körét Magyarországon. Több vállalkozást már kiválasztottak, ez a mostani találkozó azonban a rendelkezésre álló időn belül újabb lehetőséget biztosít az érdeklődőknek, hogy személyesen ismerkedhessenek meg jelentős amerikai franchise-átadókkal. A hazánkba érkezett amerikai üzletemberek jó nevű, nagy tőkeerővel rendelkező cégeket képviselnek. Ezek között szerepel gépjárműkereskedő, gépjárműjavító-hálózat, ruha-, bútor-, kárpit- és szőnyegszövő-üzlethálózat, különleges étteremhálózat, számítástechnikai cég, fodrász üzlet-hálózat és lakásbelső-, illetve irodadekorációs szolgáltató cég egyaránt.

PESTI HÍRLAP 1993-06-22

Franchise-találkozó Budapesten

Az eddigi legnépesebb amerikai franchise-szakértői csoport tart ma egész napos üzleti találkozót potenciális magyar rendszerátvevőkkel Budapesten. Az amerikai érdeklődés hazánk iránti nem véletlen — Magyarországon már több mint 150 franchise-rendszer működik, igaz, mintegy fele hazai fejlesztésű.

A Franchise Közép- és Kelet-Európában Magyarországot nevet viselő projekt részeként tartják ma a találkozót. A projektet az Egyesült Államok Nemzetközi Fejlesztési Ügynöksége (USAID) és a budapesti székhelyű, nemzetközi franchise-ra szakosodott ügyvédi iroda, az East-Europe Law, Ltd. kilenc hónappal ezelőtt

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❖ Beszivárgó Amerika

Rangos, egynapos üzleti találkozót rendeznek ma Budapesten. Eddig még soha nem járt nálunk ilyen szintű amerikai üzletemberekből álló küldöttség, amely újvilági termékek, szolgáltatások és franchise megoldások iránt érdeklődő magyar befektetőkkel találkozik.

Széles a választék, amivel az amerikaiak megpróbálnak beszivárogni a magyar gazdaságba az EastEurope Law. Ltd. által összehozott találkozón.

1993. június 21., hétfő

MAI NAP

Amerikai franchise-rendszerek magyar befektetőknek

Munkatársunktól

A június 21 én, Budapesten "Üzleti lehetőségek és befektetők találkozója" címmel tartandó rendezvényen bemutatják a potenciális magyarországi átvétőknek az amerikai franchise-rendszereket. Három különböző üzleti szolgáltatás névhasználati jogát ajánlják fel. A rendezvényt a budapesti székhelyű EastEuropeLaw Ltd ügyvédi irodlatámogatásával tartják meg. A találkozón részt vevő, franchise-rendszerben működő há-

rom szolgáltató vállalat a Rainbow International, amely elsődlegesen szőnyeg- és kárpittisztítással és festéssel, a Mr. Rooter, amely vízvezeték- és csőszereléssel, valamint esatornatisztítással, illetve a Worldwide Refinishing, amely porcelán- és egyéb, alháztartásban található zománcfelületek felújításával foglalkozik. Mindhárom vállalat tagja a világ 20 országában közel 2000 franchise-egységgel rendelkező The Dwyer csoportnak.

VILÁGGAZDASÁG

1993 -06- 09

A franchise hódítani fog? A magyaroknak tetszik a nyugati forma

Egyértelműen hasznosnak és eredményesnek nevezték tárgyalásaik eredményeit magyar potenciális partnereikkel azok az amerikai cégek, amelyek franchise-szerződés alapján szeretnék üzleti gyakorlatukat és arculatukat Magyarországon elterjeszteni.

A minap összesen hét amerikai vállalkozó *három* *tuat* magyar vállalkozás képviselőivel lépett kapcsolatba egy, az amerikai segélyhivatal, az USAID által kezdeményezett projekt keretében. A szervezést a franchise-rendszer magyarországi elterjesztésén, annak szerződésjogi kérdéseiben tanácsot adó nemzetközi ügyvédi vállalkozás, az *East Europe Law (EEL)* vállalta magára, egy ugyan-csak a franchise terén jelentős szerepet betöltő magyar vállalat, a *Zarex Kft.* segítségével. A rendezvény zárkörű volt, részleteket a tárgyalásokról nem szivárogtattak ki.

Az amerikaiak a szolgáltatási és termelőszektor számos területét képviselték a haj- illetve gépkocsipótlás, a gyorsélelmiszeripar, mely utóbbi szolgáltatásban a franchise – elsősorban a *McDonald's* jóvoltából – egyre nagyobb teret nyer idehaza is. Az EEL

illetékese szerint orvondetes volt, hogy a jelentős amerikai cégekkel magyar magáncégek is keresték most a kapcsolatfelvételt, egyengettek jövőbeli üzleti kapcsolataikat. Remény van arra, hogy újabb amerikai értékesítési rendszerek vernek gyökeret magyar vállalkozások keretében idehaza.

Az USAID-nak a franchise elterjedését segítő projektje lezárult, de a franchise további terhdódítását segítő akciók nem maradnak el. A mostani egynapos rendezvény iránti jelentős magyar érdeklődés alapján – hatvan cegeből választották ki előszelékcióval az érdemi tárgyalásokra engedett 35-öt – várható, hogy a külföldi és a magyar cégek közötti master-franchise szerződések mellett, azok eredményeként számos úgynevezett alfranchise-átvevő kapcsolódik ezekhez a gazdavállalatokhoz, és az egész országban *egységes arculatú és színvonalú* kereskedelmi, termelői vállalkozások jelennek meg. A mostani budapesti amerikai-magyar franchise-találkozón a résztvevők mintegy 30 százaléka vidéki városokból érkezett.

(k. g.)

SIKER RENDSZERDÍJ

A FRANCHISE (EITSZ. FRENCSÁJZ) lényegében *licenchereskedelem*: megállapodás aminek értelmében egy vállalat (franchisor, azaz átadó) jogot ad egy másik vállalatnak (franchisee, azaz árvevő) arra, hogy bizonyos üzleti tevékenységet az átadó üzletpolitikájával, gyakorlatával, eljárásával és az általa bevezetett árukkal összhangban folytasson.

A franchisor olyan vállalkozási csomagot nyújt át, amely hosszú távon szavatolja a franchisee sikerét. A csomagban benne van a teljes know-how, beleértve a szakmai irányelveket és a marketinget is.

A franchise-nak jelentős a munkahelyteremtő képessége, ebbe a körbe gyakran lépnek be családi vállalkozások. Az ilyen formában beinduló vállalkozások sokkal sikeresebbek, mint az önállóak statisztikailag kimutatható, hogy harmadannyi franchise megy tönkre, mint a más formában működő cég. Másképpen: az üzletember saját vállalkozásában megvalósítja ötletét, bevezeti a márkanévet, reklámozza, sikerre viszi. Rendszergazdává akkor válik, amikor a bevált ötletet a bevezetett márkanévvel, tapasztalatokkal együtt átadja olyanoknak, akik saját tőkéjükkel fejlesztik tovább a rendszergazda által elindított hálózatot. Az árvevők önálló vállalkozók maradnak, csupán a rendszerre fejlesztett siker használatáért fizetnek. Később a rendszergazda már nem az eredeti terméket vagy szolgáltatást értékesíti, hanem a know-how-t.

Ennek a sajátos know-how-piacnak megvannak a szabályai, megvan az üzleti kultúrája. Magyarországon még most is új keletűnek számít ez a vállalkozástípus. Igazából a Babolna-McDonald's vegyes vállalat létrejötte nyomán jelent meg nálunk (habár kezdetben a McDonald's sem franchise formában működött).

Mára sokan felismerték a benne rejlő lehetőségeket: mintegy 150 ilyen típusú vállalkozásban hozzávetőleg 1700 magyar vállalkozó érdekelt.

GRIFF

1993-06-11

NÉPSZABADSÁG

1993. június 18., péntek

ÜZLETSOR

Franchise-fórum

Amerikai franchise-rendszerek mutatkoznak majd be a magyar befektetők előtt azon a június 21-iki budapesti találkozón, amelyen sor kerül három üzleti szolgáltatás nevezéskénti jogának felajánlására is.

BUSINESS

Hungarian franchises: A market ready to take off

By John P. Hayes
Special to the Sun

Hungary could develop into one of the hottest export markets in the world for U.S. franchise companies, to judge by the success of the first formal effort to link U.S. franchisers and Hungarian investors.

Hours after the meeting, conducted recently in Budapest, two of seven participating companies were close to finalizing deals.

"Within the next three to five years, Hungary will blossom with dozens of new franchise concepts, most of them American," predicted Philip Zeidman, a Washington D.C. franchise attorney who has established a practice in Budapest. "And there is an equal number of home-grown Hungarian franchise companies developing, inspired largely by American concepts."

Zeidman said he sought to introduce Hungarian investors to a variety of franchising concepts, including fast-food (Arby's), and service businesses (Rainbow International Carpet Cleaning & Dyeing, Deco-

rating Den, Futurekids, Ziebart Tidy Car, The Barbers, and Speedy Muffler King).

Only about one-fifth of the approximately 2,500 U.S. franchise companies operate internationally. A handful of U.S. chains, notably McDonald's, Burger King, Kentucky Fried Chicken and Pizza Hut, are already in Hungary.

American franchisers normally sell development rights in a given country to a master licensee who is then responsible for marketing, selling and supporting franchises in a given country or territory.

The franchiser transfers its intellectual properties, including operations manuals, marketing materials and support documents, to the master licensee in exchange for an initial franchise fee and a percentage of ongoing royalties collected from franchisees.

Master license franchise fees for Hungary will range from \$65,000 for service companies to \$150,000 and more for food concepts.

Zeidman, who organized the event with financial assistance from the U.S. government, said the meeting generated enormous interest

Dozens of would-be Hungarian participants were turned away, Zeidman said.

Representatives of the various companies declared themselves pleased with the quality of the prospects, and two said they expect to sign contracts before summer's end.

Kay Ainsley, representing the auto-detailing company Ziebart International, is set to conclude a deal with a Hungarian investor by mid-July. Mike Minihane of Futurekids, which provides computer education for children, met twice with "a serious prospect" in Budapest and anticipates an agreement within months.

However, some said lining up franchisees with sufficient investment capital may be a problem.

Larry Gustafson, representing Arby's, said the company believes there is "definitely a market in Hungary for us."

But first the company must find a master licensee. "Many of the people I met could become franchisees of Arby's, but not masters," Gustafson said. "Our financial requirements are hefty."

An additional article on the project and the meeting in Budapest on June 21, 1993, will be published in the early fall in Franchise World. A copy will be forwarded to Deloitte at that time.

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July 13, 1993

(202) 879-5730

1~

Dear 2~:

I wanted to take this early opportunity, before memories of the meeting in Budapest on June 21 fade, to thank you for participating in this first business and investment "match" between North American franchisors and Eastern European prospective investors, franchisees and master licensees. It was, by all quantitative standards, a great success; and I appreciate your generous remarks on its qualitative aspects as well. I will welcome your further thoughts upon reflection.

We were pleased to have been selected by the United States Agency for International Development to undertake this pioneering venture, and wish you will in your own exploration of the prospects in this region in transition. In the meantime, and with kindest regards, I am

Sincerely,

Philip F. Zeidman

24654:kc

Letters From U.S. Franchisors
Received Following June 21 Meeting

FUTUREKIDS®

CHILDREN'S COMPUTER CLASSES

Dear Mr. [Name]

I am pleased to inform you that your child has been accepted into the [Class Name] computer class. This class is designed to provide a fun and educational environment for children to learn the basics of computer use.

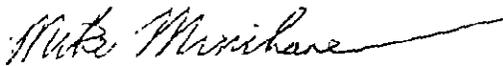
The class will be held on [Days/Times].

As a condition of enrollment, we require that you provide a computer for your child to use during the class. We will provide a manual and a CD-ROM to assist in the learning process.

We are excited to have your child join our program and look forward to seeing them in class. Please contact us if you have any questions or need further information.

Thank you for your interest in Futurekids. We hope to see you and your child soon.

Sincerely,



Mike Marinone
Director of International

Futurekids, Inc.

Los Angeles, CA

Tim Eij

**The
Hayes
Group**

INCORPORATED

27 June 1993

Mr. Phil Zeidman
Brownstein, Zeidman And Lore
Suite 900
1401 New York Ave. NW
Washington, D.C. 20005-2102

Dear Phil,

On at least two levels I thought the matchmaking opportunity that you arranged in Budapest for U.S. franchisors and prospective Hungarian licensees was a huge success.

I participated in the event as a representative for Rainbow International, one of my clients. However, I also participated in the event as a publicist with a great deal of interest in franchising.

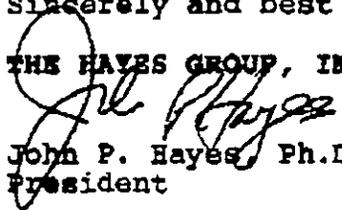
Through the various meetings that you arranged, I was able to introduce Rainbow to five qualified prospects who expressed interest in acquiring the master license. The meetings were excellent! Already one prospect has written to me for additional information. I expect at least one or two of these prospects will visit the USA to further explore the opportunities with my client.

Before I left Budapest, I was able to meet with three members of the Hungarian business media. Two of the media immediately asked me to write articles for them about U.S. franchise interests in Hungary. The third publication wants to receive news releases from us as they pertain to their market.

So thank you for arranging this matchmaking opportunity. You should feel very proud of what you accomplished. I talked to several of the franchise company representatives who participated and they all remarked about the high quality of the meetings. We're all hopeful about signing some agreements, or at least getting a return invitation to try it again in Budapest!

Sincerely and best wishes,

THE HAYES GROUP, INC.


John P. Hayes, Ph.D.
President



Marketing • Advertising • Public Relations • Franchise Development

426 Pennsylvania Avenue, Suite 3, Fort Washington, Pennsylvania 19034

215-540-0120 • FAX 215-540-9442

Amerikai franchise-rendszerek magyar befektetőknek

Munkatársunktól

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(k. g.)



June 29, 1993

Brownstein Zeidman and Lore
1401 New York Avenue N.W.
Suite 900
Washington, D.C. 20005

Dear Phil:

Congratulations on an excellent franchising program in Budapest and thank you for including Ziebart International.

As we have discussed, the Hungarian market offers great potential for our products and services but we have always thought it would be difficult to find the "right" master franchisee.

Your program provided the introduction to two qualified masters and several potential sub-franchisees. I was very impressed with the quality of the people I met with.

We are hopeful that we will soon be doing business in Hungary. Thank you again for all your help.

Sincerely,

A handwritten signature in cursive script that reads "Kay M. Ainsley".

Kay M. Ainsley
Director
International Market Development

KMA/dmh

Ziebart International Corporation

Executive Offices P O. Box 1290 • Troy, Michigan 48007-1290 U S A • Phone (313) 588-4100 • Fax (313) 588-0718
Plant & Warehouse Phone (313) 937-0710 • Fax (313) 937-1470



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Joseph Francis, Sr.
Chairman of the Board

July 15, 1993

Mr. Philip Zeidman
BROWNSTEIN, ZEIDMAN AND LORE
1401 New York Avenue, N.W.
Suite 900
Washington, D.C. 20005

Dear Phil;

Now that I have had time to reflect on my trip to Budapest, I'd like to tell you what a pleasure it was to be included.

I was most impressed with how you had organized the meeting. The facilities were excellent and the format for selling a franchise was the best I have ever experienced in all my years of franchising, and that's over 25 years.

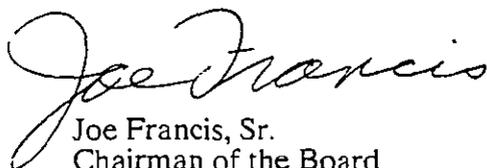
The prospects were well screened and very qualified. They were all very sincere and interested. Usually we spend over half of our time with people who are just curious and don't really have a genuine interest. There was none of that with the people we talked with.

You and your staff are to be commended on the great job which all of you did to arrange such a fine event.

Please give us the opportunity to join you again on your next one.

Thanks again.

Sincerely,


Joe Francis, Sr.
Chairman of the Board

JF:ab



LARRY D GUSTAFSON

July 13, 1993

Mr. Philip F. Zeidman
Brownstein, Zeidman and Lore
1401 New York Avenue, N.W.
Suite 900
Washington, D.C. 20005

Dear Mr. Zeidman:

I want to thank you again for the invitation to participate in the International Development meetings in Hungary. You and your staff should be proud of the professional manner in which these meetings were scheduled and conducted.

As you know, I met with numerous groups. At least two of those groups potentially could move on to become Master Franchisees. Several others could later become sub-franchisees. Over all the meetings were beneficial and I can not think of a better way to get to know both the people and country.

I will keep you updated on the status of Hungary as we move forward. If at all possible we are going to have a agreement executed by year end.

Sincerely,

Larry D. Gustafson

LDG:jj

July 7, 1993

BROWNSTEIN ZEIDMAN AND LORE
Mr. Philip Zeidman
Suite 900
1401 New York Avenue, N.W.
Washington, D.C. 2000

Dear Mr. Zeidman:

I'd like to take this opportunity to thank you for setting up the U.S. A.I.D. - EastEurope Law meeting in Budapest.

The candidates appeared to be very well qualified and reflected your efforts. I admit that at first I had only moderate expectations for this meeting. I received nine appointments, a remarkable turnout by anyones standards, and was delighted by their intense interest in Decorating Den. The results can only be measured in time but you and your staff certainly did their work well. I'm sure your program and your efforts will prove effective in establishing many beneficial relationships.

Your efforts are truly appreciated and I will take every opportunity to recommend you and your excellent service.

Very Truly Yours,



Neal O'Shea
Vice-President,
Worldwide Licensing

drg

Press Coverage Following June 21 Meeting

American franchise systems for Hungarian investors

from our correspondent

American franchise systems will be introduced to prospective Hungarian franchisees at a meeting called 'Business and Investment Match' held in Budapest on June 21. The franchise rights of three different service businesses will be offered. The meeting will be held under the auspices of EastEuropeLaw, Ltd., a Budapest-based law firm. The three franchisors attending the meeting include

Rainbow International, a carpet dying and cleaning company, Mr. Rooter, a firm offering plumbing and drain cleaning services, and Worldwide Refinishing, a company that refinishes porcelain and other household surfaces. All three companies are members of The Dwyer Group which operates close to 2,000 franchise units in 20 countries of the world.

Világgazdaság, 6/9/93

Will franchise win attraction? Hungarians like Western ways

American franchise companies wishing to expand their business practices and services in Hungary found the results of talks conducted with potential partners absolutely useful and successful.

In the framework of a project initiated by the U.S. Agency for International Development, a total of seven American entrepreneurs have recently contacted representatives of three dozen Hungarian businesses. With the help of Zarex Kft, a Hungarian company playing a significant role in franchising, the organisational work was undertaken by EastEuropeLaw (EEL), an international law firm engaged in the distribution of franchise systems in Hungary and in legal advising. The meeting was exclusive, details of the talks have not been released.

The Americans represented a number of areas of the service and production sector, ranging from hair- and automobile care to fast food services which, thanks to McDonald's above all, is also gaining a ground in Hungary. EEL's representative

held it fortunate that also Hungarian private companies sought contacts and paved way for relationships with the significant American businesses.

There is a hope that, through Hungarian undertakings, additional American marketing systems will take root in Hungary.

Although the U.S. AID project supporting the expansion of franchising has ended for the moment, further actions promoting franchise systems will soon follow. Based on the significant interest of Hungarian businesses in the one-day meeting (the 35 companies scheduled for talks were pre-selected of 60 applicants) and on master franchise contracts to be signed between Hungarian and foreign companies, it is expected that a number of subfranchisees will join these master franchisors, thus creating a network of trading and service businesses of uniform image and quality in the whole country. 30% of the participants of the American-Hungarian franchise meeting in Budapest came from cities of the countryside.

Magyar Nemzet, 7/1/93

SUCCESSYSTEM FEE

FRANCHISING is essentially a trade of licences: an agreement between two companies within which one of the companies (the franchisor) grants the other (the franchisee) rights to conduct certain businesses in accord to the franchisor's business policy, practice, concepts and products introduced by the franchisor.

The franchisor provides the franchisee with a business package that guarantees the success of the franchise on the long term. The package contains the complete know-how, including business-specific directives and marketing concepts.

Franchising significantly aids the creation of jobs. Franchises are often operated by families. Franchise undertakings proved to be more successful than other businesses: statistics show that three times less franchised businesses go bankrupt than non-franchised ones. In other words: in his undertaking the businessman realizes his own idea, introduces the brand name, advertises it and makes it a success. He becomes a franchisor when he passes the successful idea, together with the introduced brand name and his experiences, to those who, by investing their own capital, further develop the network set up by the franchisor. The franchisees remain independent entrepreneurs, they only pay for the use of the successful system. Instead of the original product or service, the franchisor only markets the know-how afterwards.

This particular know-how market has its own rules and its own business culture, however, this type of business is considered a novelty in Hungary. In fact, it first appeared in connection with the creation of the Bábolna-McDonald's joint-venture (although not even McDonald's operated as a franchise business in the beginning).

To date, many discovered the possibilities of franchising: there are about 1,700 Hungarian businessmen with interests in the close to 150 franchised undertakings.

Griff 6/11/93

Franchise Forum

American franchise systems will be introduced to Hungarian investors on June 21 in a Budapest meeting where also franchise rights of three business services will be offered (to interested investors).

Népszabadság 6/18/93

America Infiltrating

A prestigious one-day business meeting will be held in Budapest today. So far, never has an American business delegation of such level visited us, planning to meet with Hungarian investors interested in products, services and franchise techniques of the New World.

Wide is the selection with which the Americans seek to infiltrate into the Hungarian economy with the help of this meeting organized by EastEuropeLaw, Ltd.

Mai Nap 6/21/93

Franchise meeting in Budapest

The largest-so-far delegation of American franchise experts attend a one-day business meeting with potential Hungarian franchisees in Budapest today. The American interest in our country is not an accident: there are over 150 franchise systems operating in Hungary, half of which were developed locally.

The meeting is held as part of the 'Franchise in Central and Eastern Europe: Hungary' project. The project was launched nine months ago by the U.S. Agency for International Development (USAID) and EastEuropeLaw, Ltd., a Budapest-based law firm specializing in

international franchising. The goal of the project is to further promote the widespread concept of franchising, as well as to introduce franchise systems which already gained success elsewhere. These include Ziebart Tidy Car, a network of franchised businesses offering car accessories and protection services, the Midas International Corporation car repairing network, Rainbow International, a carpet cleaning business, Big Boy Restaurant Systems, Arby's, specializing in beefsteaks, and the City Looks by the Barbers network.

Magyar Hírlap 6/21/93

OFFERS OF THE LARGEST INVESTORS New Franchising Program

A largest-so-far group of representatives of franchise systems arrived in Budapest to meet Hungarian investors and potential franchisees interested in American products, services and franchising concepts. The American franchise delegation is claimed by the organizers to be the largest one ever visiting Central Europe.

The one-day meeting is the culmination of the 'Franchising in Central and Eastern Europe: Hungary' project which was launched nine months ago by the U.S. Agency for International Development (USAID) and EastEuropeLaw, Ltd., a Budapest-based law firm specializing in international franchising. The purpose of the project has been to introduce to interested parties the concept of franchising which, functioning highly successfully elsewhere in the world, may

be expected to reach similar results also in Hungary.

Previous meetings, co-sponsored by banks and other organizations have sought to identify potential franchisees in Hungary. A number have already been identified; but, subject to limitation of time, this meeting will provide an additional possibility to interested companies to meet in person with important American franchisors. The American businessmen attending the meeting represent prestigious companies of solid capital. These include car dealers, a car repair chain, clothes, furniture and carpet cleaning services, a special chain of restaurants, a computer company, a chain of barber shops as well as an interior and office decorating service.

Pesti Hírlap 6/22/93

Franchise delegation from overseas

A largest-so-far group of representatives of American franchise systems will soon visit Budapest. The exclusive meeting, planned for seven participants, will introduce to potential Hungarian investors Ziebart Tidy Car, a car accessories marketing business, Rainbow International, interested in on location carpet and furniture cleaning, and Speedy Car-X, Inc. car repair chain.

Two companies came from the catering sector: Big Boy Restaurants Systems, and Arby's, the fast food network specializing in sandwiches. Future Kids' system is based on computer education; the 'City Looks by the Barbers' name depicts hair saloons and the marketing concept to operate them. Representatives of Decorating Den, the first franchised interior and office decorating service, will also come to Budapest.

Világgazdaság 6/18/93

Franchise-delegáció a tengerentúlról

Az amerikai franchise-rendszerek képviselőinek eddigi legnagyobb csoportja látogata napokban Budapestre. A hetfőre tervezett zártkörű üzleti találkozón potenciális hazai befektetők előtt bemutatkozik a gépjárműtartozékok kereskedelmével foglalkozó Ziebart Tidy Car, a helyszini szőnyeg és karpittisztításban érdekelt Rainbow International és a Speedy Car-X Inc. autójavító szervizhálózat.

A vendéglátóiparból ketten vannak: a Big Boy Restaurants Systems, illetve a gyorskiszolgálásra specializálódott Arby's szendvicshálózat. A számítógépes oktatásra épül a Future Kids rendszer, míg a City Looks by the Barbers név hajszalont és az ennek működtetéséhez szükséges marketing-rendszert foglal magába. Budapestre jönnek a világ első franchise-rendszerben működő lakásbelső-és irodadekorációs szolgáltatásra létrejött Decorating Den cég képviselői is.

S. Gy.

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A LEGNAGYOBB BEFEKTETŐK AJÁNLATAI

Új franchise-program

A. S. P.

Amerikai franchise-rendszerek képviselőinek eddigi legnagyobb csoportja érkezett Budapestre, hogy találkozzon az amerikai termékek, szolgáltatások és franchise-megoldások iránt érdeklődő magyarországi befektetőkkel és potenciális átvevőkkel. A szervezők szerint ez a legnagyobb amerikai franchise-delegáció, amely valaha is Közép-Európába látogatott.

Az egynapos üzleti találkozó kiemelkedő eseménye a „Franchise Közép- és Kelet-Európában: Magyarország” nevű projektnek, amelyet az Egyesült Államok Nemzetközi Fejlesztésének Hivatala (USAID) és a budapesti székhelyű, nemzetközi franchise-ra specializálódott ügyvédi iroda, az East Europe Low Ltd. kilenc hónappal ezelőtt indított útjára. A projekt célja, hogy a franchise-módszert bemutassák az érdeklődőknek, amely egyébként a világ

számos részén kiemelkedő sikerrel működik, s várhatóan hasonló eredményekkel hasznosítható Magyarországon is.

A korábbi bankok és egyéb szervezetek által is támogatott találkozók már megkísérelték felmérni és számba venni a potenciális franchise-átvevők körét Magyarországon. Több vállalkozást már kiválasztottak, ez a mostani találkozó azonban a rendelkezésre álló időn belül újabb lehetőséget biztosít az érdeklődőknek, hogy személyesen ismerkedhessenek meg jelentős amerikai franchise-átadókkal. A hazánkba érkezett amerikai üzletemberek jó nevű, nagy tőkeerővel rendelkező cégeket képviselnek. Ezek között szerepel gépjárműkereskedő, gépjárműjavító-hálózat, ruha-, bútor-, kárpit- és szőnyegtisztító-üzlethálózat, különleges étteremhálózat, számítástechnikai cég, fodrász üzlet-hálózat és lakásbelső-, illetve irodadekorációs szolgáltató cég egyaránt.

PESTI HIRLAP · 1993. 06. 22.

The following items relate to specifically to matters or events prior to March 30, 1993, and are submitted in response to a request by Deloitte to supplement the Interim Report Deliverables.

Franchising and Privatization: Three Models

Although the manufacturing company would probably be purchased by one group of investors, the distribution channels would be broken up into a network of independent businesses, thereby creating an entrepreneurial opportunity for a large number of people.

Example: A state-owned company manufactures electric fans, which are distributed by that company's own stores or by third party agents or sales representatives. The manufacturing facilities are sold to private investors, who also purchase the rights to manage

III.B Privatization and Franchising: Three Models

Following is a description of three models of privatization in which franchising can be used as a method for restructuring a state-owned enterprise and transferring the ownership of all or part of such enterprise to private hands:

A. Product Manufacturer

Assume a state-owned company which manufactures products and either owns the distribution outlets which sell the products or sell the products through unaffiliated distributors. Although the manufacturing facilities are not readily adaptable to a franchising method, the distribution network can most certainly be converted into a franchise operation, to be owned by the manufacturing company or by a separate entity which will be the franchisor under the franchise operation. The distribution of the products will be accomplished through independent distribution outlets, each of which will constitute a franchise, responsible for distribution of the products within a certain defined area, and, if applicable, for servicing the products once they are in the consumers' hands.

In this scenario, the manufacturing company itself is transferred to private ownership pursuant to the typical privatization process. The distribution system is transformed into a franchise operation, with each franchisee being a private, independent business person who owns, and usually also operates, the franchise. Managers or employees of the current distribution channels could be offered the opportunity to acquire franchises.

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Example: A state-owned company manufactures electric fans, which are distributed by that company's own stores or by third party agents or sales representatives. The manufacturing facilities are sold to private investors, who also purchase the rights to manage and operate the distribution system. The investors establish an affiliated company for the purpose of managing the distribution system. That company (the franchisor) can be capitalized by the original investors, by additional investors or by a combination of both. The franchisor would grant licenses to franchisees to establish independent businesses to sell the electric fans and to service them during the warranty period (and possibly thereafter as well). The franchises may be acquired by current managers or

employees of the state-owned enterprise, if that enterprise controlled the distribution channels, or by the current agents or sales representatives. Each franchisee would be allocated an exclusive territory in which the franchisee will be the sole distributor of, and provider of service to, the electric fans. The franchisee would pay the franchisor an initial fee upon the grant of the franchise, and ongoing royalties based on sales of the electric fans.

B. Hotel Chain

Assume a group of state-owned hotels, which hotels are managed by state employees. Some or all of these hotels may bear the same name. Each hotel is managed and operated as an independent entity, although all the hotels are owned by the state. As a result of different management style and due to economic considerations, each hotel provides a different quality level of service.

A restructuring of this group of hotels can be accomplished using the franchising method. The individual hotels can be linked to one another horizontally, and vertically to a franchise company formed for that purpose. The franchise company could be owned and operated by a foreign franchisor with experience in the hotel industry or alternatively by local management with similar experience.

Each individual hotel will be purchased from the state, perhaps by the current managers and employees of that hotel, and transformed into a franchised business, to be managed and operated as an individual entity within the framework of a franchise system.

The franchise company (the franchisor) may elect to enter into a franchise relationship with a Western franchisor in the hotel business to convert the hotels to the use of such franchisor's business concept and trade name. Alternatively, the franchisor can itself set standards of operation for the hotels, and require each hotel to adapt its business and operations to the common denominator selected by the franchisor.

The typical financial arrangements under a franchise system of this type would be for the franchisee to pay ongoing royalties to the franchisor, in exchange for the right to use the franchisor's trade name and business concepts, as well as for ongoing assistance and advice in the operation of the hotel. The franchisor may offer to manage the hotel on behalf of the franchisee, in which case a management fee would be paid to the franchisor.

Privatizing a group of hotels in this fashion would leave each hotel as an independently owned and operated business, yet would result in numerous advantages that

franchising offers, including a large degree of entrepreneurial autonomy and the creation of a proven concept with widespread recognition.

C. Retail and/or Service Stores

Under the so-called "small-scale" privatization of retail and/or service stores, these independent and unrelated entities are being privatized by sale to private owners. Many of these newly-independent businesses may eventually fail, due to lack of a support system, lack of concerted buying power and ineffective advertising. These symptoms may be overcome if the new owners of the retail and/or service stores affiliate with an existing or newly-created franchise company operating in the appropriate commercial sector. The stores would operate under a franchise network, using the same business concept and trade name. The structure and signage of each store would be modified to the common appearance selected by the franchisor.

Under a franchise system, each store would remain individually owned and operated by a private individual, partnership or corporation, but would at the same time enjoy the support offered by the franchisor, which itself would also be a privately-owned entity. Under the roof of a franchise system, the stores will benefit from name recognition, advertising and promotion campaigns financed by joint

contribution of all the stores operating under the system, and a buying power represented by the combined volume of the stores. In addition, the franchisor should provide ongoing assistance concerning operations, quality control, and possibly coordinate the servicing of national accounts. The franchisor could be an existing operation (Western or local) which would require the stores to convert to such franchisor's existing business concept and trade name, or a franchise company created solely for this purpose.

Example: Many small-scale privatizations involve the sale of grocery or convenience stores to private individuals. The organization of a group of such stores within a franchise system may accomplish the benefits described above. Each store will be required to conform its signage and decor to that which will characterize the franchise system. Each store will operate pursuant to the business concepts developed by the franchisor, and under the same trade name. Typically, the store will pay royalties to the franchisor for the right to use the business concepts and the trade name. The store owners will benefit from regional or national advertising, enhanced purchasing power, and eventually name and quality recognition. The franchisor may be owned and operated by local investors, or perhaps by a foreign franchisor who would coordinate the conversion of the stores to its business concepts and possibly its trade name.

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