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International

BY BILL EDWARDS

Going Global

Overseas growth for U.S. franchisors to continue in 2014

In 2013, U.S. franchisors of all sizes and from all sectors are "going global" with their brands. Is this a temporary trend, or a long-term strategy decision? Over the past several months, the IFA analyzed their franchisor members' current and planned international development and found the following:

- More than one-third of the units of the 200 largest U.S.-based franchisors are outside the U.S.
- Predictions are that this share will increase to one-half by the end of this decade.
- International franchising, once limited to the largest franchisors, has now become part of the business plans of smaller franchisors.
- What was once thought of as reserved for food, car rental, and hospitality franchises now can be found across the full spectrum of industries.
- These trends seem likely to continue for the foreseeable future. In IFA surveys of its franchisor members, roughly 80 percent responded that they already do, are planning to begin, or will accelerate international franchising—and that it is important to the company's future.

2014 outlook

With this in mind, let's take a brief look at how 2014 looks as a year for global franchising by U.S. brands. Projected growth rates (see chart) are based on published sources plus a brief survey of franchise specialists around the world.

As a start, a recent World Bank study found a correlation between the growth rate of a country's gross domestic product (GDP) and new investment in new businesses, i.e., if a country's annual GDP growth rate exceeds 4 percent, that country will have new investment in new businesses. Countries with GDP growth rates between 2 and 3 percent are also good markets to seek international franchisees in 2014. Below that, not so much or none. In parts of Europe the GDP growth rate is actually negative.

Since a new international license for a U.S. franchisor means the start-up of a new business, we probably should focus on those countries with expected GDP growth of 4 percent or more in 2014.

Asia/Pacific

China, Indonesia, and the Philippines are seeing a high level of franchise activity and have high GDP growth projections for 2014. Other countries in this region seeing good licensing activity are Australia, Japan, and New Zealand. Malaysia and South Korea have regulations that discourage foreign franchise brands from entering their countries. As China transitions from a government-owned enterprise economy to a consumer-spending economy, more and more consumers have discretionary income to spend at U.S. brands; and average wage increases of 20 percent a year are good for sales at U.S. brands.

Europe

The deep recession in Europe has brought unemployment rates of 20 to 25 percent, negative GDP growth rates, and little new investment. According to many published sources, these numbers will begin to improve in 2014. Already there is increased interest in U.S. franchises in Ireland, Spain, and the U.K.

Latin America

The high level of U.S. franchises entering this region in 2013 will continue. Particularly active are Chile, Colombia, Panama, and Peru. In recent years, Colombia and Peru have gone from poor economies to rapid growth countries with lots of construction cranes in their major cities and rapidly increasing consumer spending. In Brazil, increased barriers to entry are resulting in little new foreign franchise development. In Argentina, economic and legal problems are limiting development.

Middle East

Despite the turmoil in Egypt and Syria, this region remains very open to U.S. franchises. In particular, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates will continue to see new U.S. brands opening units in 2014. New franchise regulations have opened up Tunisia to U.S. franchises. The fastest growth of U.S. franchises in this region currently is in Saudi Arabia.

Other countries

Russia, South Africa, and Nigeria have seen new licenses granted for U.S. franchisors in 2013. This trend is expected to continue in 2014.

Projected 2014 GDP Growth Rates for Selected Franchise-Friendly Countries

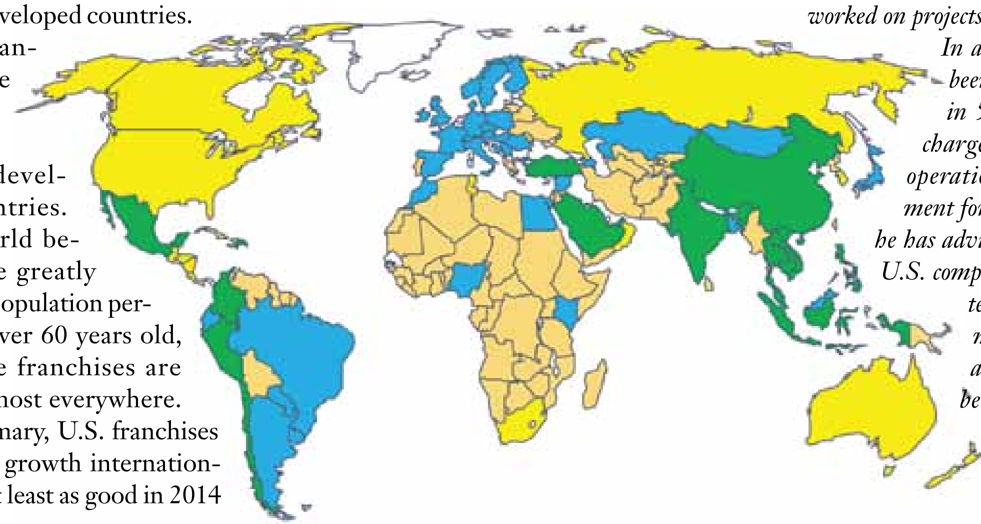
China	7.3%
Philippines	6.6%
India	6.1%
Vietnam	5.5%
Indonesia	5.4%
Saudi Arabia	5.1%
Chile	4.9%
Turkey	4.6%
Colombia	4.3%
Mexico	3.9%
South Africa	3.3%
New Zealand	3.3%
U.S.A.	2.7%
Australia	2.7%
Brazil	2.5%
Canada	2.3%
U.K.	2.1%
Japan	1.5%
Ireland	1.1%

Preferred types of franchises

U.S. food and beverage brands continue to be the most desired in other countries. Educational franchises—especially for children—are greatly desired in the emerging markets. Retail brands with a well-established supply chain are finding licensees in both emerging markets and developed countries. Service franchises are primarily franchising into developed countries. As the world begins to see greatly increased population percentages over 60 years old, home care franchises are desired almost everywhere.

In summary, U.S. franchises can expect growth internationally to be at least as good in 2014 as in 2013. This new growth will be in all franchise sectors, with the emerging markets seeing the most new units opening. ■

GlobalVue—Projected 2014 County Ranking



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