2021 INTERNATIONAL OUTLOOK

MIXED PROSPECTS AMID GLOBAL UNCERTAINTY

Written By **WILLIAM EDWARDS**

As the second quarter of 2020 came to a close, new global franchise development was at a standstill with a bleak outlook. Finding investors in other countries who were able and wanted to start a new franchise was simply not possible. Now, in the fourth quarter of 2020 ,there are signs of a strong resurgence of interest in acquiring new franchise brands in many countries. Companies looking long term see this as a good time to secure capital at very low interest rates and retail space at discounted rents.

Our company, and the franchisors we help take their brands global, are seeing the return of licensee candidates who for several months focused on keeping their core businesses alive and their employees safe. Today we see active interest in acquiring new franchise licenses from companies in Australia, Canada, China, Colombia, India, Israel, Italy, Japan, Korea, Mexico, Panama, Peru, Saudi Arabia, Spain, and the United Arab Emirates. The response to the Covid-19 crisis by candidates in these countries truly shows the resilience of the human spirit.

We asked several global franchise experts to comment on the 2021 franchise growth in their countries and regions. The bottom line is that almost all expect 2021 to be a banner year for new franchise development owing to pent-up demand, large positive GDP growth, and a desire to invest in proven business systems.

Also, be sure to look at our annual "Country Ranking as a Place To Do Business in 2021" list, which ranks the countries predicted to be most favorable to franchising in the coming year.

Australia. Projections for franchising in Australia indicate strong resilience post-Covid and into 2021. Strong operators who have been able to pivot their business models to capitalize on the impacts of Covid will see continued and accelerated growth in 2021. Franchisors will benefit from stronger demands for service-based brands as well as those focused on health and well-being. The hospitality sector has seen a vast change in consumer behavior and reliance on home delivery, with an increase in options of app-based platforms to serve the demand. The stronger operators who can adjust their model to balance the cost of in-house dining, takeaway, and delivery will provide a formula for managing the key drivers of the business, including a rethink on the design and format of new sites. Post-Covid lead generation data is showing strong signs of engagement from individuals seeking to invest in a franchise, based on limited security with their current employment or a change in priorities and lifestyle brought about by wanting to buy and operate a business of their own within a branded franchise network. It is also predicted that owing to the softening economic conditions in countries more severely affected by Covid, the appetite for brands to explore a market entry into Australia in 2021 is projected to rise.

—James and Rod Young, DC Strategy, Melbourne and Sydney

Canada. Local and regional governments across Canada are passing or considering passing various regulations to help individuals and businesses survive what seems to be a second wave of the Covid-19 pandemic. Public health agencies and governments are taking steps to help "flatten the curve." Thank goodness that Canadians are some of the most cooperative people on the planet. That trait helped Canada to maintain one of the lowest infection and mortality rates among developed countries during the first Covid wave. What does this mean for the franchise sector? It means that a better, safer, and more prosperous future is in sight. When that time arrives, franchisors and franchisees alike will be well positioned in Canada to take advantage of pent-up consumer demand. With the added boost from a safe and effective vaccine, Canadian franchisors will be able to take advantage of a bumper crop of well-qualified and well-financed franchise candidates who have lost their jobs through no fault of their own. In 2021, Canadian franchisors will be able to secure more good locations and at much better rates than have been seen for decades. While Covid-19 has been cruel to many business sectors, QSR for take-out and delivery, cleaning and sanitizing, home care, and tutoring have been doing very well in Canada and will continue to expand during 2021.

—Ned Levitt, Partner, Dickinson Wright, Toronto

Egypt. Since 2016, Egypt has witnessed unprecedented economic growth and has become an increasingly urbanized country. With a population of 101 million, Egypt has the largest consumer base in the Middle East and North Africa (MENA) region and is considered a high-caliber investment market, attracting numerous investors and retailers from the region. It is estimated that 5 million Egyptian consumers are drawn to increasingly popular name brands and convenience services. The franchise sector has witnessed significant growth as new malls have spread across Egypt, particularly in the new suburbs around the Greater Cairo, Red Sea, and Mediterranean coasts. With the outbreak of Covid-19, Egypt's tourism sector has lagged and offshore worker remittances have declined with the decline of oil revenues in the GCC countries, where many Egyptians are employed. In 2021, the economy is projected to continue to slow because of the prolonged effect of the pandemic. FocusEconomics projects GDP to expand 2.2% in FY 2021 and 5.3% in FY 2022.

—Manal El Masry, Ideate Project Management Services, Dubai

Mexico. While there is a general atmosphere of caution and a sense that Mexico's economy will not truly open and bounce back until the coronavirus vaccine can be widely distributed in the country, the 2021 outlook for franchising in Mexico is promising. The pandemic has caused many entrepreneurs to lose their businesses and many more persons to lose their jobs. As the economy recovers they will look to invest and re-establish themselves in the business community finding opportunities that present less risk, like acquiring a proven franchise business.

—Roberto Litwak and Ferenz Feher, Feher Consulting, Mexico City and Southern California

New Zealand. While Covid-19 has had an impact on the New Zealand economy and franchising, the impact on franchising has been less than predicted. The franchising scene is active both with new systems coming on board and with many people who have been made redundant buying franchises. With the New Zealand borders shut except for returning Kiwis, the risk of community spread is minimal and New Zealand is functioning "normally." While economists project that the New Zealand economy will contract in 2020, it will grow 5% in 2021.

—Stewart Germann, Franchise Attorney in Auckland, New Zealand, IFA Supplier Member

Turkey. The economy in Turkey is expected to grow by around 4% in 2021. However, the depreciation of the Turkish lira against the U.S. dollar by almost 35% since the beginning of this year and the increase in borrowing costs appear to be two of the biggest obstacles to new franchise investments in 2021. Considering these financial factors along with today's "new normal" lifestyle, in the short term Turkey will be a better match for innovative hygiene, health and personal care, and technology-related franchises that are leveraging today's living conditions, rather than more conventional ones such as food and beverage, fashion, and car services.

—Enver Celikbas, Istanbul, Turkey

ASEAN. While what we hear in the news can be quite depressing at times, we are among the many businesses in ASEAN countries that share a brighter outlook for 2021. According to the IMF, the ASEAN-5 economies (Indonesia, Thailand, the Philippines, Malaysia, and Vietnam) are expected to contract by 3.4% in 2020, before expanding by 6.2% in 2021. Travel bubbles have been formed between Hong Kong and Singapore. Japan is negotiating travel bubbles with Vietnam, Malaysia, Myanmar, Cambodia, Laos, and Taiwan. Franchisors from the U.S., Europe, Australasia, and within Asia-Pacific and ASEAN nations are maintaining their franchise expansion efforts, especially with franchise brands whose competition cannot or will not do so. We are anticiatiing a major economic bounce in Southeast Asia in 2021.

—Sean Ngo, CEO and Co-Founder, VF Franchise Consulting, Ho Chi Minh City, Vietnam

Thailand. Thailand's economy has been greatly challenged by the pandemic of Covid-19 during 2020. The GDP of Q2 shrank 12.2% from a year ago. Although Thailand controlled the pandemic successfully in Q3, and most franchise businesses have started to recover because of domestic consumption and government stimulus packages, other risk factors have arisen that are affecting the economy: severe drought, political uncertainty, and the continuing anti-government protests. The Bank of Thailand projects 2020 GDP to decline by 8%, and expects the economy will recover to 3.6% growth in 2021.

—Sethaphong "Seth" Phadungpisuth, Managing Director, Gnosis Company Ltd.

United Arab Emirates (UAE). The Covid-19 pandemic has triggered an unprecedented crisis across the globe. From the onset of the outbreak, the UAE reacted swiftly by imposing stringent measures to safeguard people from the pandemic. The UAE's economy has been affected: oil prices have declined, tourism has slowed, and the real estate market has been drastically shaken as a result of the oversupply of goods, loss of jobs, downsizing, and closures of retail/food outlets. The IMF projects real GDP to recover to 3.3% in 2021. UAE consumers' demand for e-commerce has increased rapidly, and they became more price-sensitive as a result of the current economic crisis. Low-end and mid-market retailers have a better opportunity to expand, while the luxury affluent retail market is approaching saturation.

—Manal El Masry, Ideate Project Management Services, Dubai

United Kingdom. The United Kingdom is going through a difficult time with self-imposed business uncertainty as a result of Covid-19, and daily changes in official policy on how to respond. In addition, it is looking very possible that the U.K. will not conclude a trade deal with the European Union, which will put further pressure on an already weakened economy. However, while large parts of the food-and-beverage sector are hurting very badly, other sectors continue to thrive, e.g., property-related services, business coaching, delivery/takeaway food concepts (especially those with drive-thru formats), and numerous others. Two upsides to the current difficulties are that there is no shortage of labor, and, for property-related businesses, the opportunity to secure very competitive retail space lease terms.

—Iain Martin, International Franchise Consultant, The Franchising Centre, U.K.

Middle East/Worldwide. Internationally we are seeing diversification as a definite trend post-Covid, as companies, entrepreneurs, and investors seek business models relevant to the new ways consumers interact with brands. This is undoubtedly a positive for franchised businesses as they provide the knowledge and industry expertise that allows relatively rapid development of a proven business system. Our forecast for 2021 for the Middle East and worldwide predicts a continuation of what has already begun: demand for models in all sectors with a strong technology base and the ability to deliver their product to the consumer at home. This includes, but is not limited to, mobile services franchises (man in a van), education brands with online curriculum, small-footprint restaurants with a well-developed delivery model, retail businesses with a robust online presence, and health and fitness brands offering hybrid on-location and online models.

—Martin Hancock, COO North America, World Franchise Associates

Global. In 2021 the European market will be recovering from the Covid restrictions and should see sales coming back up, hopefully by Q2 2021, with retail being more accessible as landlords will be more flexible. Specifically for the U.K., the big unknown is Brexit, with a deal or no deal that will affect how business can be done and how people can interact between the U.K. and the European Union. Latin America will likely be one of the regions that will take the longest to recover from the Covid crisis, as jobs won't return quickly enough and governments are not providing assistance as in other regions. Countries including Argentina, Chile, and Bolivia are not only facing the Covid situation, but also social and political reform. The Middle East region will continue to grow and take advantage of new technologies to deliver services, with consumers looking at new ways to spend disposable income as the economies in this region transition from oil-dependence to tourism and new technology hubs in an opportunity to become a new Silicon Valley. ■

—Marcel Portmann, Founder, Managing Director, Portmann Consulting Group

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COUNTRY RANKING AS A PLACE TO DO BUSINESS IN 2021

(1 = BEST, 2.5 = FAIR, 4 =WORST)

Country	Projected 2021 GDP Growth	Market Size (Consumers)	Ease of Int'l Brand Entry	Covid-19 Recovery (Projected)	Overall Country Ranking
USA	1	1	1	2	1.3
China	1	1	3	1	1.5
Indonesia	1	1	2	2	1.5
Vietnam	1	2	2	1	1.5
Germany	2	1	3	1	1.8
India	1	1	3	2	1.8
Philippines	2	2	1	2	1.8
U.K.	1	1	2	3	1.8
Brazil	2	1	3	2	2.0
Canada	2	2	2	2	2.0
France	1	1	3	3	2.0
Italy	1	2	3	2	2.0
Mexico	2	1	2	3	2.0
Spain	4	1	1	2	2.0
Turkey	2	2	2	2	2.0
Chile	3	3	1	2	2.3
Egypt	3	1	2	3	2.3
Japan	3	1	3	2	2.3
New Zealand	3	4	1	1	2.3
South Korea	2	2	4	1	2.3
Thailand	3	2	2	2	2.3
Australia	2	2	3	2	2.3
UAE	4	2	2	2	2.5
South Africa	3	2	3	4	3.0

Notes and Methodology

1. Projected 2021 GDP Growth is an average of rankings from 3 sources
2. Market size is based on middle-, upper-middle, and upper-class consumers in each country
3. Ease of international brand entry indicates how open a country is to international brands
4. Projected Covid-19 recovery predicts how quickly a country's economy is likely to recover from the pandemic
5. Overall country ranking is an average of the previous four numbers for each country