

**INTERNATIONAL  
FRANCHISING:  
THE EUROPEAN UNION (EU)**

**Rosenberg International Center of Franchising**

**International Franchise Association 46<sup>th</sup> Annual Convention  
Palm Springs, California  
February 25 – 28, 2006**

**Research Team:**

Udo A. Schlenrich, Ph.D., Director  
Hachemi Aliouche, Ph.D., Senior Research Fellow  
Melinda Dolan, M.A., M.S., Research Assistant  
Andrew E. Smith, Ph.D., Director, UNH Survey Center  
Kevin Hutchins, UNH Survey Center

## **ACKNOWLEDGEMENTS**

We are indebted to many people and organizations that have assisted us during the various stages of this research project. First of all, it was the vision of William Rosenberg who felt the need for the creation of an academic center that would be dedicated to research, teaching and outreach in the field of franchising. As a result, the Rosenberg International Center of Franchising (RICF) was established at the Whittemore School of Business & Economics, University of New Hampshire in 2002. In addition to Bill's original endowment, RICF has received considerable financial and advisory support from Annie Rosenberg, the Rosenberg Family Trust and Robert Naser. The center also benefits greatly from the support and counsel it receives from its Advisory Board which is composed of distinguished members of the IFA and the wider franchise community (see below).

This research project would not have been possible without the vision and leadership provided by John Reynolds, President of the Educational Foundation of the IFA, Matt Shay, President of the IFA, Kathryn Morgan, former Research Director of the IFA, Peter Holt, Chair of the GOLMAK committee, and the members of the GLOMAK committee. We are especially grateful for the cooperation of the IFA franchisors who completed the Survey instrument.

## **MEMBERS OF RICF ADVISORY BOARD**

Academic:	Dean Steve Bolander	Udo Schlenrich, Director
	Prof. Ray Goodman	Hachemi Aliouche, Senior Research Fellow

Industry:	Jim Amos, Chairman & CEO, Sona International
	Jason Dubinsky, President, Dunkin' Donuts Franchisee of multiple shops
	Russell Frith, President & CEO, Lawn Doctor
	Ron Harrison, CEO & Managing Director, Harrison & Associates
	Michael Isakson, President and COO, ServiceMaster Clean & Furniture Medic
	Jim McKenna, Senior Consultant, Michael H. Seid & Associates, LLC
	Robert Naser, President, Robert E. Naser Real Estate
	Annie Rosenberg, Founder & CEO, Let's Make Wine
	Donald Rosenberg, Restaurant Owner
	Matthew Shay, President, International Franchise Association
	Steven Siegel, Managing Partner, Brookside Consulting
	Leonard Swartz, Director, International Operations Franchise Services Ltd.

## TABLE OF CONTENTS

	Page
1.0 Abstract . . . . .	4
2.0 Introduction . . . . .	4
3.0 Research Objectives. . . . .	5
4.0 Methodology. . . . .	5
5.0 EU Country Fact Sheets. . . . .	7
6.0 Preliminary Analysis of Survey Findings . . . . .	11
7.0 Future Plans. . . . .	21
8.0 Appendixes. . . . .	22
9.0 References. . . . .	24

## 1.0 ABSTRACT

This research project was conducted by the Rosenberg International Center of Franchising (RICF) in order to investigate the current state of franchising from a global perspective, with a concentration on the European Union. An online survey of members of the International Franchise Association examined general descriptive data, the number of USA and foreign units in operation, foreign entry and expansion modes, and international expansion priorities and strategies. This report covers **Phase 1** of the project and presents the preliminary findings of the survey, the International Franchise Risk Assessment Model (see Appendix 1) and the EU Country Fact Sheets (see Appendix 2). The Country Fact Sheets provide demographic, economic and cultural data, and will be updated by RICEF on an annual basis. **Phase 2** will provide an in-depth analysis of the Survey data. **Phase 3** will provide a franchise risk and opportunity assessment of the European Union on a country-by-country basis. Once completed, it is the intention of RICEF to evaluate this project in conjunction with members of the Educational Foundation and the GLOMAK Committee prior to expanding it into other regions of the world.

## 2.0 INTRODUCTION

On May 1, 2004, ten new countries, mostly from Central and Eastern Europe, were added to the European Union (EU). The newly expanded EU now represents a single market of over 450 million consumers in twenty-five nations, stretching from the Arctic to the Mediterranean, and the Atlantic to the Aegean. Franchising internationally provides an opportunity for United States franchisors to reach this dynamic market, as well as others around the globe. The assessment of franchising in the EU is timely, particularly in light of the potential opportunities presented by the enlargement of the EU with ten new member countries. Two additional countries, Romania and Bulgaria, are close to being given the right to join the EU, while Turkey and the Ukraine are actively pursuing their application. The EU has an active franchising record, with hundreds of franchisors and thousands of franchisees operating throughout Europe, generating billions in annual sales.

Although US-based franchisors have been operating in EU countries for many years, entry and expansion into the newly enlarged EU market does not come without risk. The

experience of US-based franchise companies that have operated their system in the EU provides valuable lessons for potential entrants and also for those companies interested in expanding into the recently enlarged European franchising marketplace. The data obtained from this research project brings to light the important contribution, risks and opportunities that franchising presents in the global marketplace, and complements the domestic franchise information gained from the 2004 PriceWaterhouseCoopers study on *The Economic Impact of Franchised Businesses*. The results of this research will be available to members of the IFA at no cost.

### **3.0 RESEARCH OBJECTIVES**

The purpose of this research project is to investigate the current state of international franchising of US franchise companies, with a concentration on the European Union (EU). The study conducts a business climate survey of US-based franchisors in order to determine the risks and opportunities encountered in the EU when entering new markets or expanding in existing markets through franchising. The assessment of international entry and expansion strategies is based on practical, real-world lessons of franchisors. It covers issues such as country selection, market entry methods and expansion strategies - issues that are critical to prospective franchisors considering entry or expansion into the EU. The project is comprised of two primary components: (1) a web-based Survey which was completed by US-based franchisors who are members of the International Franchise Association (IFA), and (2) an analysis of economic, political, cultural and operational factors that impact franchising on a country-by-country basis in the EU.

### **4.0 RESEARCH METHODOLOGY**

Two principal methods for collecting information were employed in this project. First of all, a thorough literature review was conducted, with an emphasis on academic resources that consider best practices in franchising from international trade, business, economic, and geopolitical perspectives. Literature review sources and organizations that were utilized included academic resources (for example, LexisNexis Academic and the EBSCO Publishing Research Databases), data from the European Union and related bodies (for example, Eurostat and the Directorate General for Trade of the European Commission), the

Organisation for Economic Co-operation and Development, the International Monetary Fund, the World Bank Group, the United States International Trade Administration, the U.S. Department of Commerce, international trade agencies, and resources available through the Rosenberg International Center of Franchising (RICF) and the International Franchise Association (IFA). Secondly, interviews with members of the IFA were conducted in order to determine which questions were considered important and relevant to the members of the wider franchise community.

Subsequently, a confidential web-based Survey was designed, pre-tested, and distributed along with an appropriate cover letter from the IFA to their members. The Survey separated respondents by those currently operating in the EU and those that plan to enter the EU. Descriptive questions and a listing of countries and regions in which the franchisors operate were included. Additional questions asked about sources of information and processes used to make decisions about entry and expansion into the EU. Survey respondents were asked to assess various business factors that influence a decision to locate in the EU, including cultural, political, economic, competitive, demand and operational issues (see Appendix 1: International Franchise Risk Assessment Model). The Survey instrument was divided into three sections: descriptive data (franchise sector, size of system), global data (current international presence, expansion priorities and strategies), and European data (current presence and profitability, expansion priorities, satisfaction assessment, preferred entry modes, future market assessment).

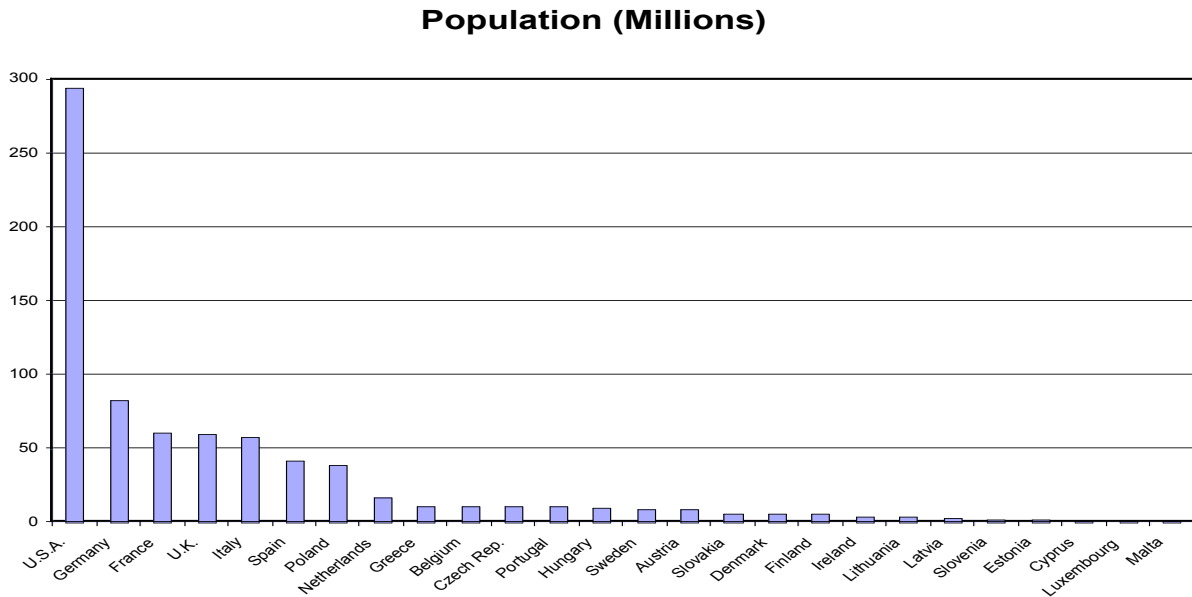
Data from the Survey was administered by the University of New Hampshire Survey Center. Several measures were taken to ensure that organization's data would not be used for any purpose other than this research project. For example, survey responses were entered into a database that was kept in the University of New Hampshire's secured local network; only the RICEF team members working on the research project had access to the responses and the database; no information pertaining to an individual company or organization was shared with any person, company or organization outside of RICEF; and no one from the International Franchise Association (IFA), IFA-EF, or any affiliate of IFA or IFA-EF was allowed to view any franchise organization's responses. Respondents were given the option of providing address information if they wanted to receive a copy of the Survey findings.

Survey responses from each franchise organization were merged with responses from other franchise organizations, providing the statistical basis for summary level reports.

### 5.0 EU COUNTRY FACT SHEETS

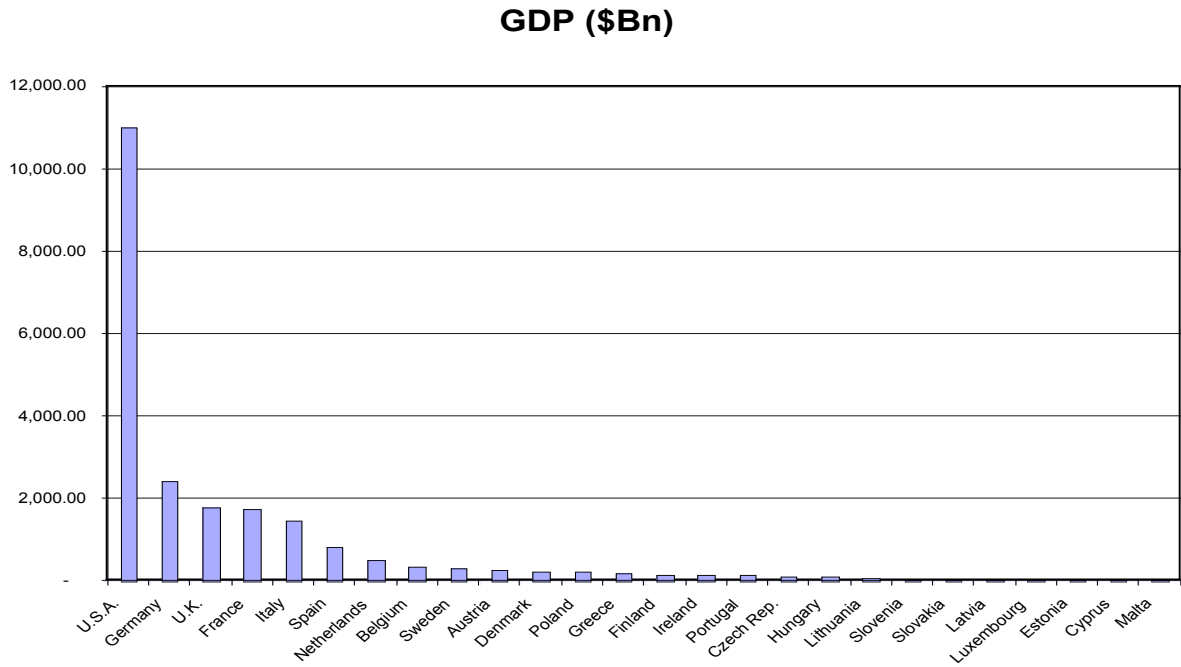
In addition to the on-line Survey instrument, the RICF team has developed a set of EU Country Fact Sheets (see Appendix 2 for a sample Country Fact Sheet). The Country Fact Sheets contain country-by-country abstracts of data of general interest to franchisors, such as demographic data (population, work force, unionization), economic data (GDP, unemployment rates, average wages, inflation rate), and cultural data (language, literacy, corruption). This data was obtained from the sources mentioned under Research Methodology above. It is the intention of the RICF team to update this data annually. Summary data from the fact sheets is presented below.

#### Exhibit 1: EU Population by Country



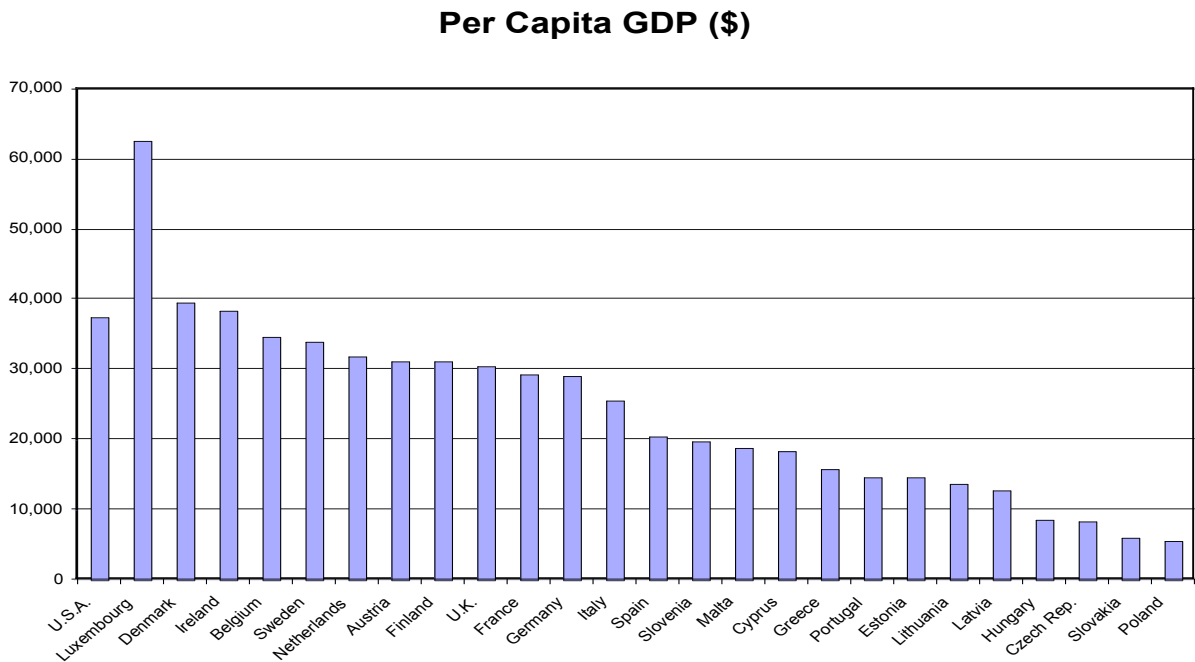
The total population of the 25 EU member countries is 460 million, compared to the population of the US which is 291 million. The population of the top six EU countries (Germany, France, the UK, Italy, Spain and Poland) is approximately equal to that of the US.

## Exhibit 2: EU GDP by Country



The EU countries with the highest GDP are Germany, the UK, France and Italy.

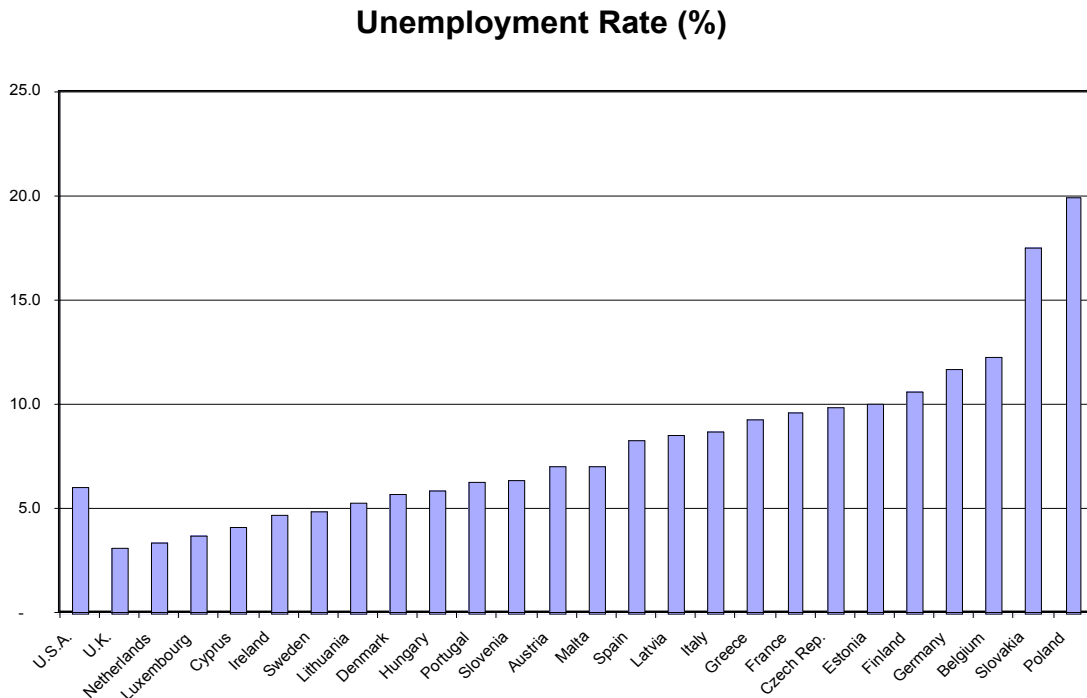
## Exhibit 3: Per Capita EU GDP by Country



The per capita GDP of three EU countries (Luxembourg, Denmark and Ireland) exceeds that of the US. The per capita GDP of some of the older EU countries such as Ireland, Portugal and Spain have experienced tremendous growth during the past twelve years as a result of capital infusion from EU donor countries (such as Germany, France and the UK), allowing them to improve their infrastructure and to take advantage of favorable export conditions. It is projected that the 10 countries that joined the EU in 2004 will reap similar benefits and thus achieve an improvement in per capita GDP.

The average per capita GDP of the EU is lower than the US, which is not surprising given that eight of the ten new EU member countries (Poland, Slovakia, Hungary, Latvia, Lithuania, Estonia, Czech Republic and Slovenia) were formally part of the Communist Block. Since joining the EU, these countries have embarked on a rigorous restructuring of their tax and legal systems, which (along with low labor rates and geographical convenience) has resulted in an influx of foreign contracts and investment (*The Rise of Nearshoring*, The Economist, Dec 3, 2005, pp. 65).

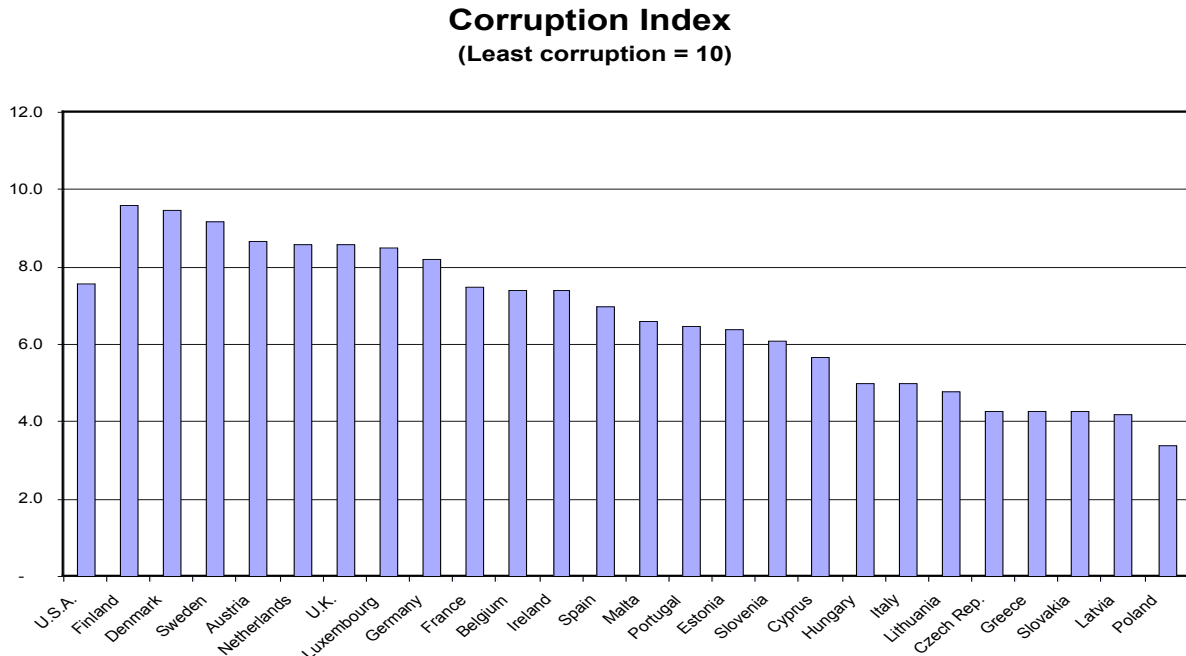
**Exhibit 4: EU Unemployment by Country**



The EU countries with the highest unemployment rate are Poland and Slovakia. Both of these countries are new additions to the EU. It is interesting to note that, although Germany is one of the largest EU countries with the highest GDP, it also has a high rate of unemployment, largely as a result of the difficulty and cost experienced in revitalizing former East Germany. In addition, Germany is struggling to change its restrictive labor practices and high tax rates. Wage costs in Eastern Europe are approximately 50-60% below western levels (*The Rise of Nearshoring*, The Economist, Dec 3, 2005, p.66).

A founding principle of the EU is to break down national barriers to continental-wide commerce. However, when the 10 new countries from Central and Eastern Europe joined the EU in 2004, restrictions on the influx of labor were imposed by twelve of the fifteen original EU member countries amidst fears of increased unemployment (*When East Meets West*, The Economist, February 11, 2006, p.47). In December, 2005, the European Trade Union Confederation voted to end all intra-EU labor restrictions. In addition, on February 16, 2006, the European Parliament voted to open up the EU services sector to cross border competition, but only after watering down the original bill to protect jobs in richer member states (*Politics Weaken EU Commerce Bill*, The Wall Street Journal, February 17, 2006, p.A-6). The service sector represents 60% of the EU economy.

**Exhibit 5: EU Corruption Index by Country (source: Transparency International)**

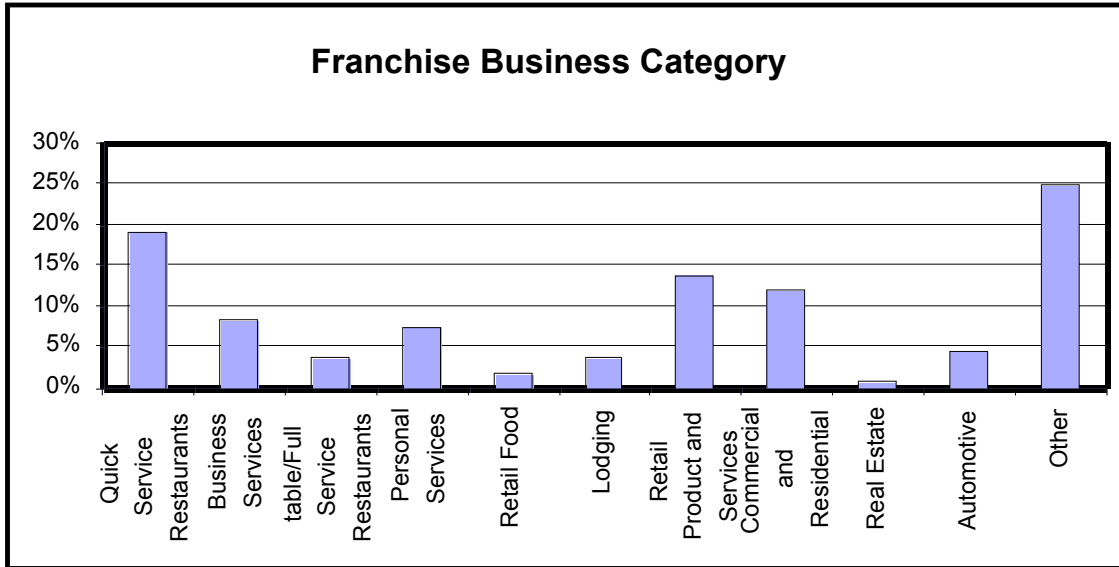


The EU country with the lowest rate of corruption is Poland. It is interesting to note that Poland is also the EU country with the highest unemployment rate, the lowest per capita GDP and is also one of the larger EU countries. Poland is one of the 10 new member countries of the EU. It is also interesting to note that, although Italy is one of the largest EU countries with a high GDP, it has a high rate of corruption.

## **6.0 PRELIMINARY ANALYSIS OF SURVEY FINDINGS**

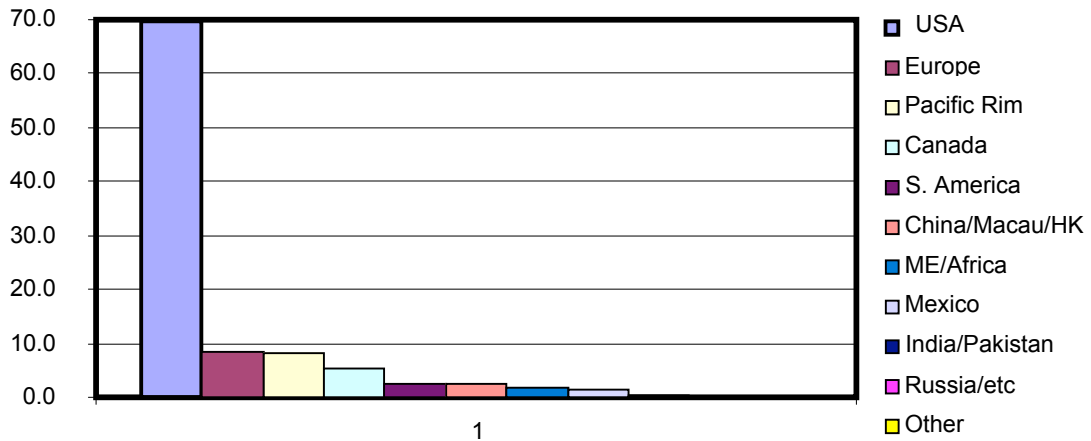
The online Survey instrument was completed by 109 US-based franchise companies, representing over 115,000 units worldwide.

Exhibit 1: Franchise Business Category



Of the eleven major categories of franchise systems, the majority of respondents were from the Quick Service Restaurant sector (18 %), Retail Products and Services (14%), and Commercial and Residential services (12%).

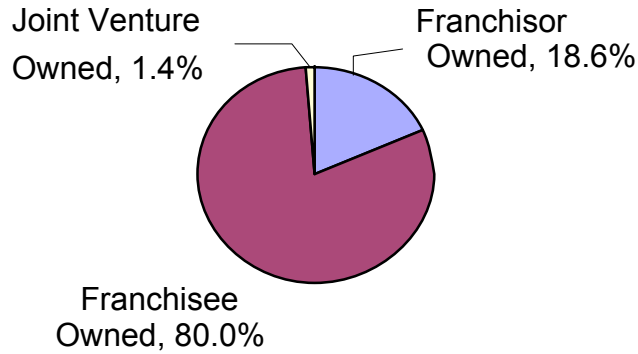
**Exhibit 2: Franchises by Region**



The majority of companies' franchise units were located in the United States (69.8%), followed by Europe (8.4%), the Pacific Rim (8.3%), Canada (5.2%), South America (2.6%),

China/Macau/Hong Kong (2.3%), Middle East/Africa (1.8%), Mexico (1.3%), India/Pakistan (0.4%) and Russia (0.1%).

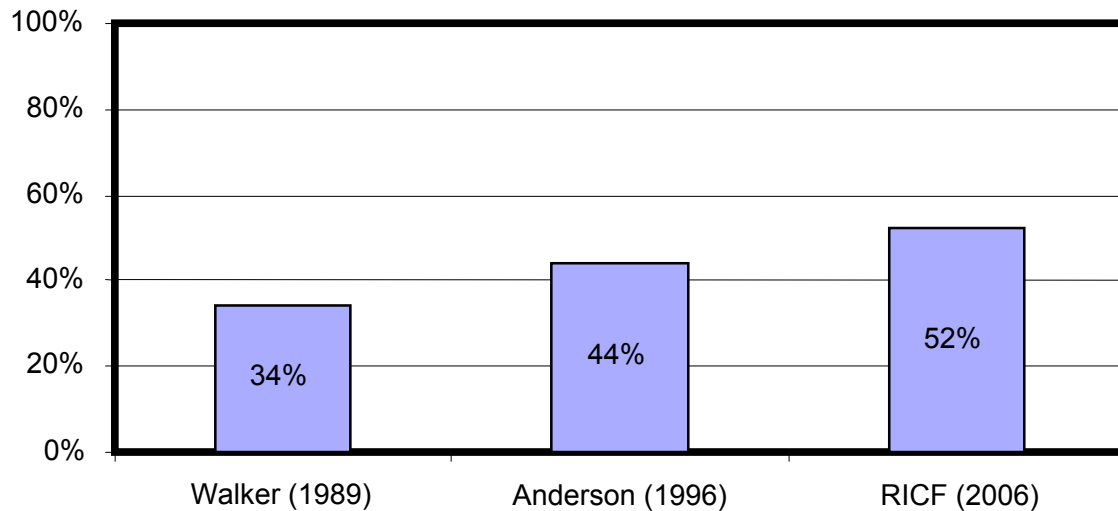
### Exhibit 3: USA Ownership Types



Four out of five franchise units in the States are franchisee-owned (80%), and approximately one out of five are franchisor-owned (18.6%). A small percentage are joint-venture owned units (1.4%).

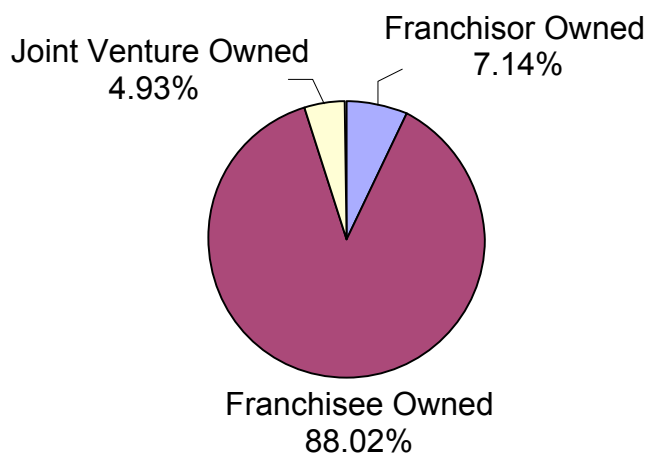
### International Franchising

#### Exhibit 4: Franchisors with Units Outside the USA



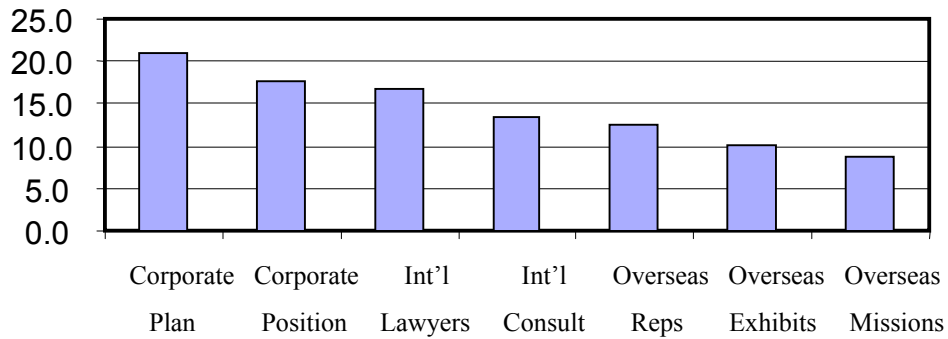
More than half of US-based franchise companies (52%) operate units outside the United States. This represents nearly a 20% increase in international expansion of US-based franchise systems since 1996, and a 53% increase since 1989 (Arthur Andersen, 1996).

### Exhibit 5: International Franchise Ownership Types



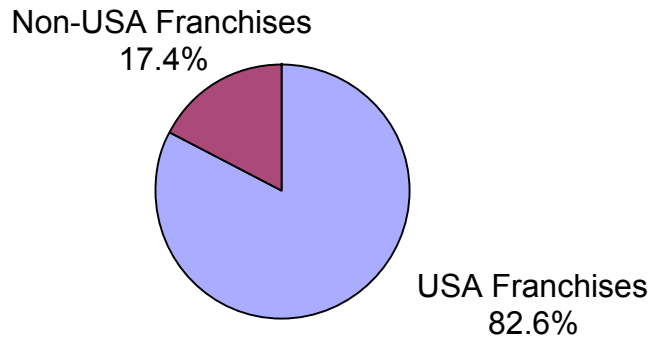
Many more overseas units are franchisee-owned (88.02% overseas compared to 80% in the States) and joint venture-owned (4.93% overseas compared to 1.4% in the States), with substantially less franchisor ownership of units (7.14% overseas compared to 18.6% in the States). These findings seem to suggest that one strategy that US-based franchise companies employ in order to reduce the increased risk involved in expanding a franchise system overseas is to operate more franchisee-owned units and be involved in joint ventures, rather than operate franchisor-owned units. One-on-one interviews with senior executives of larger franchise systems confirm this interpretation of the data, especially in the case of expansion into high risk areas or expansion that is capital intensive, such as hotels. One exception is expansion into markets such as Russia or China that require considerable adjustments to the US franchise system and the development and sourcing of new supply chains. In such cases, franchise companies sometimes develop a pilot unit before rolling out the system to local franchisees.

### Exhibit 6: International Expansion Strategies



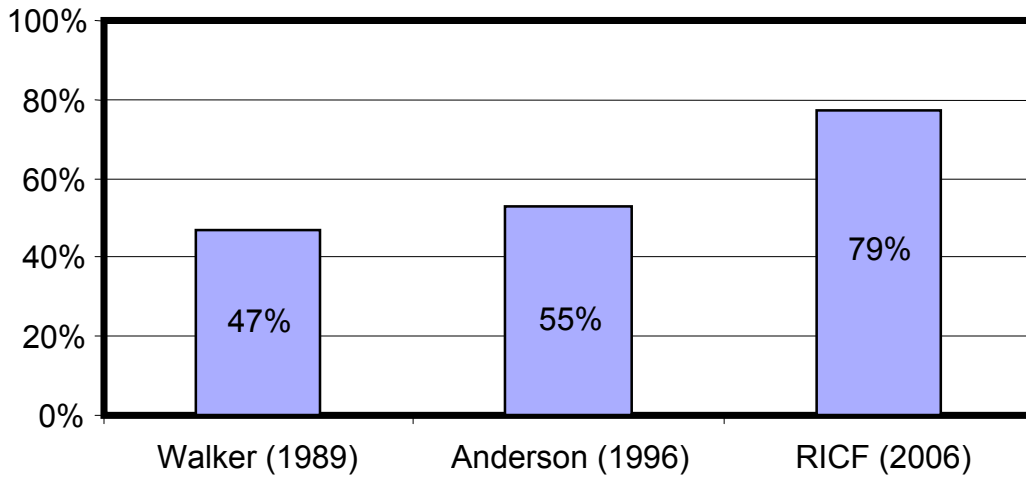
Franchisors employ a variety of strategies to foster international expansion. More than one out of five companies surveyed have a corporate development plan for overseas expansion (21%). Almost one out of five also have an in-house corporate position in charge of international development (18%). In addition, franchisors use international law firms, consultants, trade exhibitions and trade missions to support overseas expansion.

### Exhibit 7: Total Profit Distribution (EBIDTA)



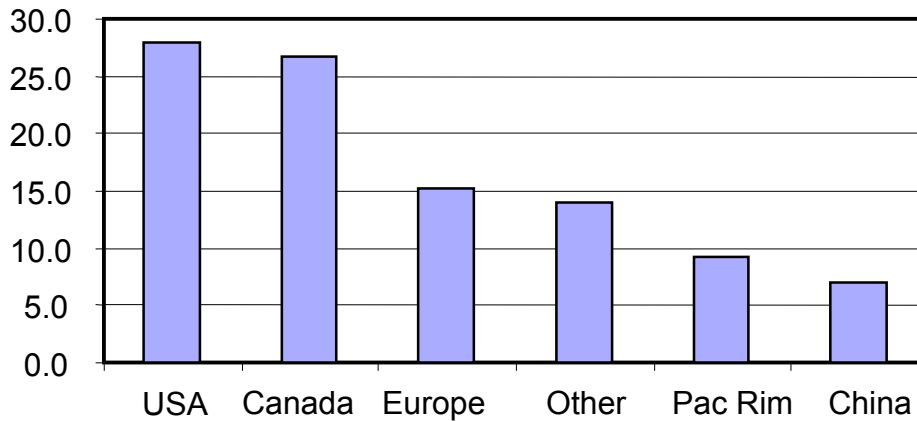
US-based franchisors generate 17.4% of their EBITDA profit from overseas operations.

### Exhibit 8: Franchisors Planning to Open Units Outside USA



Almost four out of five franchise companies (79%) plan to open new units outside the US. This represents about a 25% increase since 1996, and nearly a 70% increase since 1989.

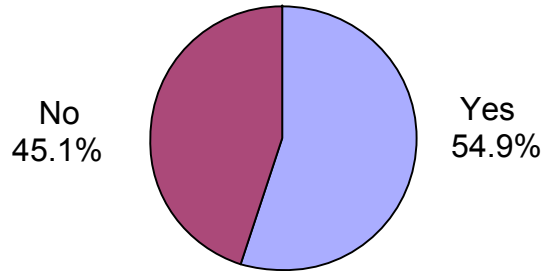
### Exhibit 9: 3-Year Franchise Expansion Priorities



The most important countries/regions identified for franchise expansion during the next three years were the USA (28%), followed closely by Canada (26%), then Europe (15%), the Pacific Rim (9%) and China (7%).

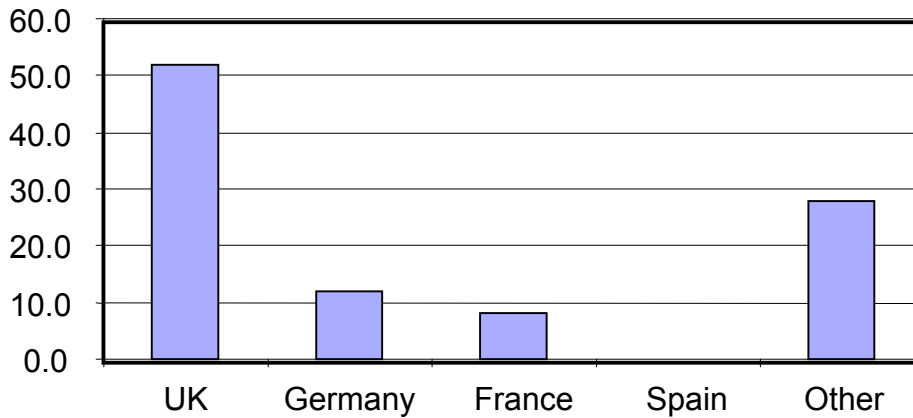
## Expansion in the European Union

**Exhibit 10: Franchisors Operating in the EU**



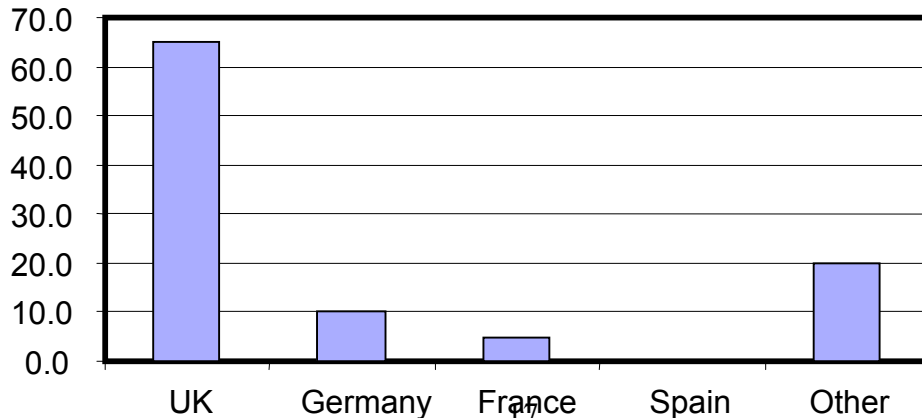
More than half of US-based franchisors surveyed operate units in EU countries.

**Exhibit 11: EU Countries With the Most Units**



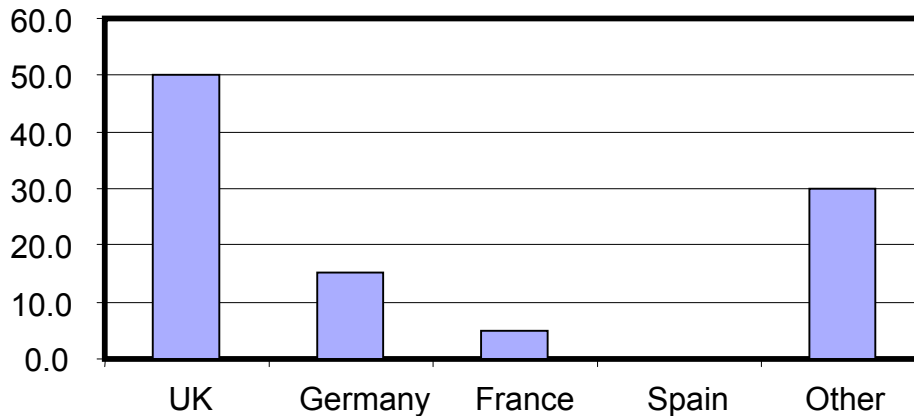
Half (51%) of the US-based franchisors who currently operate units in the EU indicated that the UK is the EU country where they have the most units. Twelve percent of franchisors have the most EU units in Germany and 8% have the most EU units in France.

**Exhibit 12: Top EU Countries for System Profitability (EBITDA)**



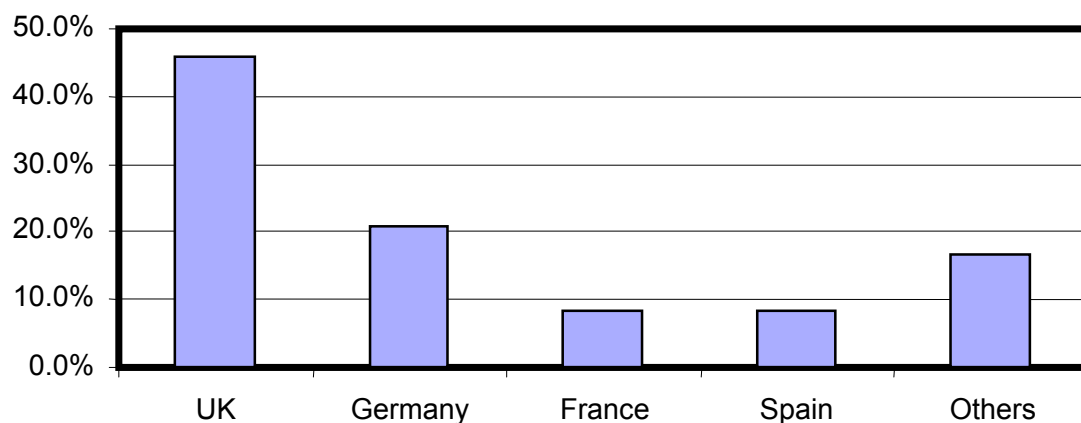
More than half (65%) of the US-based franchisors who currently operate units in the EU indicated that the UK is their most profitable EU system. For 10% of franchisors, Germany is their most profitable EU system, and for 5% France is their most profitable EU system.

**Exhibit 13: Top EU Countries for Unit Profitability (EBITDA ÷ Number of Units)**



Half (50%) of the US-based franchisors with units in the EU indicated that the UK generates the highest unit profitability, 15% indicated that Germany generates the highest unit profitability, and 5% indicated that France generates the highest unit profitability.

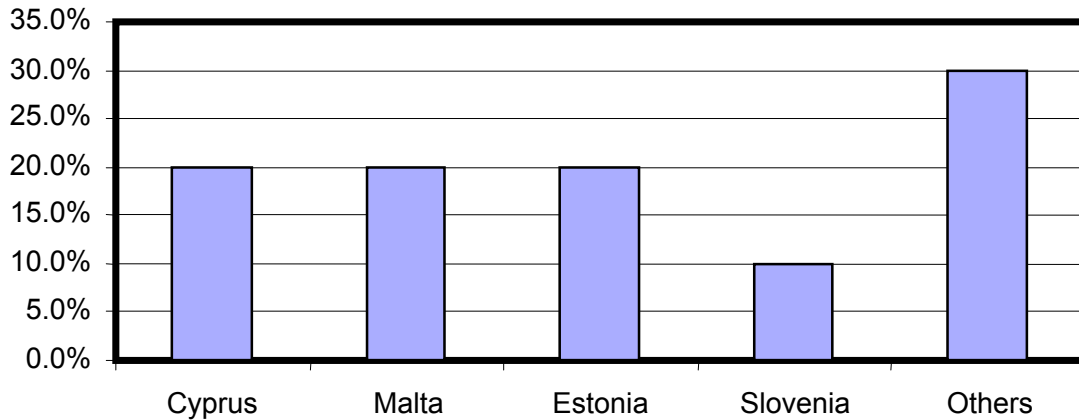
**Exhibit 14: Most Attractive EU Countries for Franchise Expansion**



Just less than half (48%) of the US-based franchisors who currently operate in the EU find the UK to be the most attractive EU country for expansion, 20% find Germany to be the most attractive, and 8% indicated that France is the most attractive. It is interesting to note

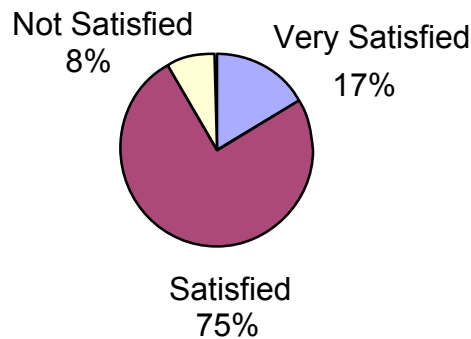
that, although Spain is rated by less than 1% of the franchisors as their most profitable EU country, 9% of franchisors rated Spain as their number one choice in terms of attractiveness for expansion.

**Exhibit 15: Least Attractive EU Countries for Franchise Expansion**



Cyprus, Malta and Estonia are reported to be the least attractive EU countries for expansion. Slovenia is also mentioned by 10% of franchisors who currently operate in the EU as the least attractive EU country for expansion. All four of these countries are newcomers to the EU, and each one represents a very small market.

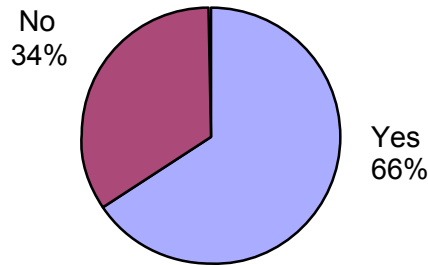
**Exhibit 16: Overall Satisfaction with EU Franchise Experience**



Seventeen percent of US-based franchisors who currently operate in the EU were very satisfied with their experience, 75% were satisfied and 8% were not satisfied.

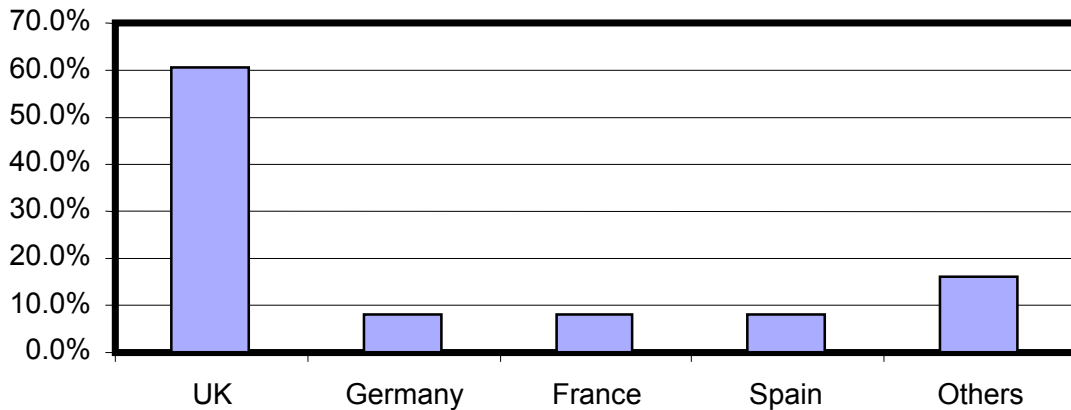
## Entry into the European Union

### Exhibit 17: EU Entry Plans



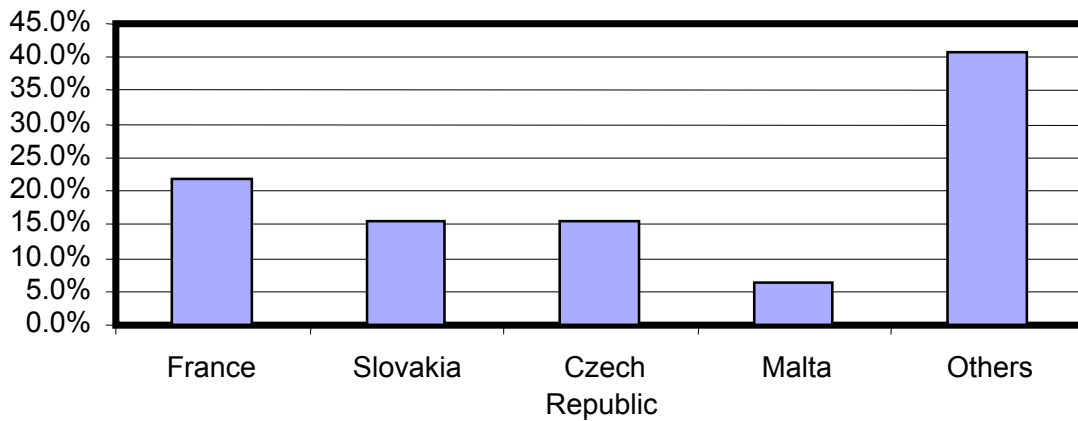
Less than half (45.1%) of the US-based franchisors surveyed do not currently operate units in EU countries. Of these, 66% plan to enter this market.

### Exhibit 18: Most Attractive EU Countries for Franchise Entry



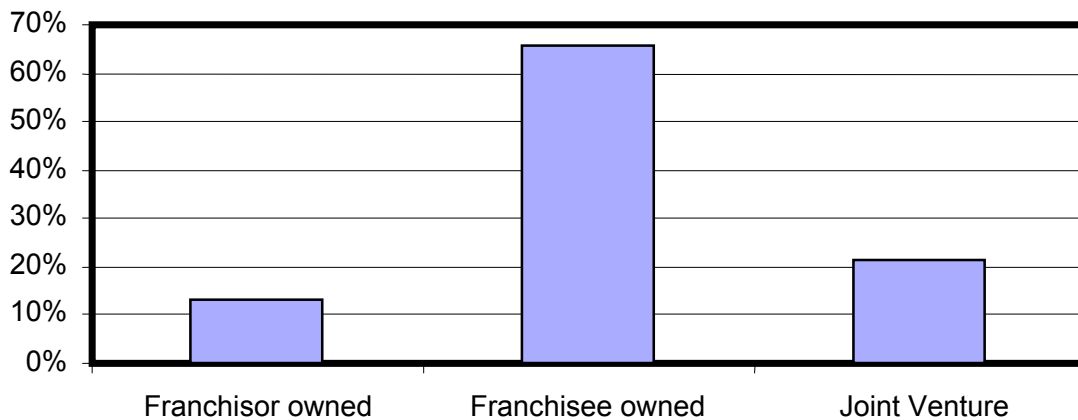
More than half (60%) of the US-based franchisors who do not currently operate in the EU find the UK to be the most attractive EU country for entry, 9% find Germany to be the most attractive, 9% indicated that France is the most attractive, and 9% find Spain to be the most attractive. It is interesting to note that the UK is the first choice country for 60% of franchisors for entry into the EU compared to 45% for expansion. Germany, on the other hand, is considered to be less attractive for entry than for expansion (9% compared to 21%), with France and Spain being equal for either entry or expansion (9%).

### Exhibit 19: Least Attractive EU Countries for Franchise Entry



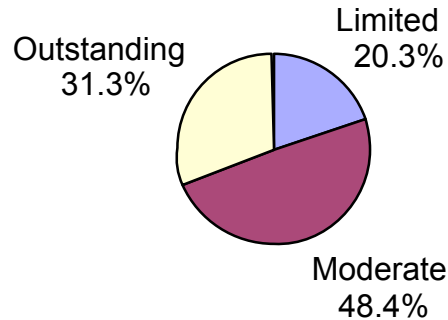
Twenty-two percent of the US-based franchisors who do not currently operate in the EU find France to be the least attractive EU country for entry, 15% find Slovakia to be the least attractive, 15% indicated that the Czech Republic is the least attractive, and 6% find Spain to be the least attractive. It is interesting to note that although France is seen by 9% of franchisors who already operate in the EU as the most attractive EU country for expansion, 22% of franchisors who do not currently operate in the EU find France to be the least attractive EU country for entry.

### Exhibit 20: EU Entry Modes



For entry into the EU market, most franchisors had used or were planning to use franchisee-owned units (66%), followed by joint ventures (21%) and franchisor owned units (12%).

## Exhibit 21: Future Potential in the EU



Nearly one third (31.3%) of the franchisors surveyed felt that their future potential in the EU was outstanding, almost half (48.4%) felt it was moderate, and 20.3% felt it was limited.

### 7.0 FUTURE PLANS

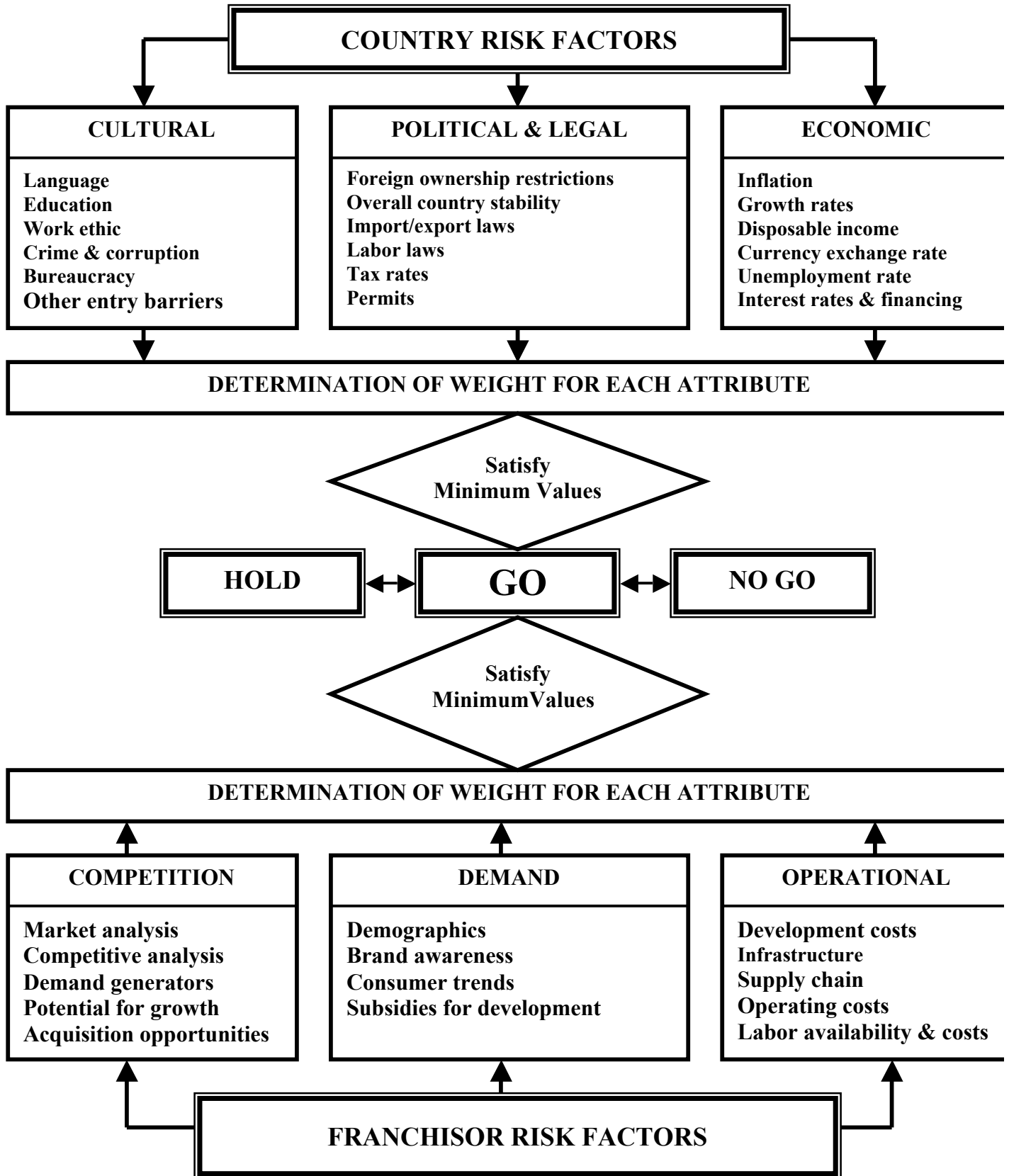
**Phase 2** of this current research project will include an in-depth statistical analysis of the data from the online Survey. **Phase 3** will include a risk and opportunity assessment of the EU on a country-by-country basis. It is the objective of RICF to expand the present research into other regions of the world. The next area to be considered is China, followed the Pacific Rim.

### 8.0 APPENDIXES

**Appendix 1: International Franchise Risk Assessment Model**

**Appendix 2: Sample EU Country Fact Sheet (Belgium)**

## Appendix 1: International Franchise Risk Assessment Model



## Appendix 2: Sample EU Country Fact Sheet (Belgium)

The Kingdom of Belgium shares its borders with France, Luxembourg and the Netherlands. It is about the size of Maryland and covers an area of 32,547 sq. kilometers (12,566 sq.mi.). Its capital city of Brussels has a population of 992,041 and the primary languages are Dutch, French and German. Belgium's total population of 10,396,421 (2004) is growing at about 0.4% with 69% living in urban areas. The people are governed by a parliamentary democracy under a constitutional monarch and are, predominantly, Roman Catholic or Protestant.

Seventy-Four percent of Belgium's trade is with the European Union and six percent is with the United States. Its primary imports are fuels, chemical products, grains and food. Exports consist of iron, steel, coal, tractors, transportation equipment, diamonds and petroleum products. Belgium's economy is growing at 2.7% (2004) and has a budget balance of 0.1% of GDP.

<b>Belgium: Demographic Data</b>	<b>2003/2004</b>	<b>Belgium: Economic Data</b>	<b>2003/2004</b>	<b>Belgium: Cultural &amp; Other Data</b>	<b>2003/2004</b>
		GDP (\$bn)	295.49		
Area (sq. km.)	32,547	GDP Growth (%)	2.5	Capital	Brussels
Population (million)	10.4	PerCap GDP	34,518	Primary Language	Dutch
Population Growth %	0.4	Inflation Rate %	2.7	2nd Language	French
% Population Under 15yrs	17.1	Change in Real Wages (%)	2.2	Urban Population %	69
Population below poverty line (%)	4	Unemployment (%)	7.7	Urban Growth %	
Agricultural Workers (% of population)	4	Foreign Direct Investment (\$bn)	34.4	Literacy (% of population)	98
Industrial Workers (% of population)	26.3	Total Foreign Debt/GDP%	96	Public expenditure on education (%)	21.7
Service Workers (% of population)	71.8	Exports (\$bn)	203.6	Population in prison (per 100,000)	99
Union Workers (% of population)	53	Imports (\$bn)	194.1		
		Trade Balance (\$bn)	11.6		

### CURRENCY EXCHANGE RATE

10/11/05 \$ 1 = 0.8254 Euro / 1 Euro = 40.3399 BEF

### INDEX 10/10/05 CLOSE YTD% CHANGE

BEL 20 3,338.18 13.82

## 9.0 REFERENCES

- Bremmer, Ian (2005), *Managing Risk in an Unstable World*, Harvard Business Review, June, pp. 51-60.
- Garelli, Stephane (2005), *Competitiveness of Nations*, IMD World Competitiveness Yearbook, Lausanne, Switzerland, pp. 608-619.
- Howell, L.D. and B. Chaddick (1994), *Models of Political Risk for Foreign Investment and Trade*, The Columbia Journal of World Business, pp. 70-90.
- IMD World Competitiveness Yearbook* (2005), IMD, Lausanne, Switzerland.
- International Expansion by U.S. Franchisors*, (1996), Arthur Andersen, Chicago, IL.
- Jorion, P. and S.J. Khoury (1996), *Financial Risk Management: Domestic and International Dimensions*, Blackwell Publishers, MA.
- Lowell, L. Bryan and Jane N. Fraser (1999), *Getting to Global*, McKinsey Quarterly, No. 4.
- OECD Employment Outlook*, <http://www.oecd.org>
- Overall Observations: Financial Transparency and Accountability Initiative*, <http://www.transparency-usa.org/Overall%20Observ.htm>
- The Economic Impact of Franchised Businesses: A Study for the International Franchise Association Educational Foundation*, (2004), PriceWaterhouseCoopers, Washington, DC.
- The Economist Intelligence Unit*, <http://www.economist.com/research>
- The Rise of Nearshoring*, The Economist, Dec 3, 2005, pp. 65-67.
- The World Bank Global Perspectives 2006*, <http://www.info.worldbank.org/etools>
- The World Fact Book*, <http://www.cia.gov/cia/publications/factbook/index.html>
- Transparency International: The Coalition Against Corruption, <http://www.transparency.org>
- Walker, Bruce (1989), *International Franchising Study*, International Franchise Association, Washington, DC.
- When East Meets West*, The Economist, February 11-17, 2006, pp. 47-48.
- World Economic Forum (2005), *Global Risks to the Business Environment*, Switzerland.