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European Union Is Hot Spot For Expansion Of Franchising, New Research From UNH's Rosenberg Center Indicates

UK Considered The Most Attractive European Country For Franchising

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DURHAM, N.H. -- Stretching from the Arctic to the Mediterranean, and the Atlantic to the Aegean, the European Union represents a single market of more than 450 million consumers in 25 nations. New research by the William Rosenberg International Center of Franchising at the University of New Hampshire indicates franchisors worldwide, and particularly those in the United States, are poised to take advantage of this dynamic market.

A new research report, "International Franchising: The European Union (EU)," was presented recently at the International Franchise Association 46th Annual Convention by Udo Schlenrich, professor of franchising hospitality management, and director of the Rosenberg Center at UNH's Whittemore School of Business and Economics.

"Although U.S.-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 U.S.-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," Schlenrich says.

According to the International Franchise Association, in 2001 franchised businesses accounted for 56.3 percent of quick service restaurants, 18.2 percent of lodging establishments, 14.2 percent of retail food businesses, and 13.1 percent of table/full service restaurants. Franchises employed almost 10 million people, with direct output close to \$625 billion and a payroll of \$230 billion.

The UNH researchers surveyed 109 U.S.-based franchise companies, representing more than 115,000 units worldwide. Of those surveyed, the majority of companies' franchise units were located in the United States (69.8 percent), and four out of five franchise units in the United States were franchisee-owned (80 percent). More than half of the U.S.-based franchise companies (52 percent) surveyed operate units outside the United States, which represents nearly a 20 percent increase in international expansion of U.S.-based franchise systems since 1996, and a 53 percent increase since 1989.

"The assessment of franchising in the EU is timely, particularly in light of the potential opportunities presented by the enlargement of the EU with 10 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," according to the report.

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

Those surveyed appear poised for expansion. Nearly four out of five franchise companies (79 percent) plan to open new units outside the United States in the next three years, which represents about a 25 percent increase since 1996, and nearly a 70 percent increase since 1989. The most important countries/regions identified for franchise expansion during the next three years were the United States (28 percent), followed closely by Canada (26 percent), Europe (15 percent), the Pacific Rim (9 percent) and China (7 percent).

More than half of U.S.-based franchisors surveyed already operate in EU countries, and the majority (51 percent) of those operating in Europe favor the UK, with the United Kingdom where they have the most European units. Although less than half (45.1 percent) of the U.S.-based franchisors surveyed do not currently operate units in EU countries, 66 percent plan to enter the market.

That bodes well for the UK. More than half (60 percent) of the U.S.-based franchisors who do not currently operate in the EU find the UK to be the most attractive EU country for entry. However, 22 percent of the U.S.-based franchisors not operating in the EU said France was the least attractive EU country for entry.

The UK also did well with U.S.-based franchisors already operating in the EU, with 48 percent saying the UK is the most attractive EU country for expansion. Germany also was considered a good place for franchise expansion, as was France. Those surveyed said Cyprus, Malta, Estonia and Slovenia were the least attractive EU countries for expansion, all newcomers to the EU and each representing a very small market.

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DOWNLOAD THE REPORT: http://www.unh.edu/news/docs/RCIF_EU2006.pdf.