



2016 Top Markets Report **Franchising** Country Case Study

Mexico

The franchise sector in Mexico grew 10 percent in 2014, continuing to be one of the most important sectors contributing to the country's economic growth. Conservative estimates indicate that this sector will grow at least 11 percent in 2015.

Overall
Rank

6

The Mexican franchise industry represents the fifth largest franchise market in the world. The sector, which employs over 80,000 people, represents about 6 percent of GDP. The sector grew 10 percent in 2014 and is expected to grow at least 11 percent in 2015.

As an important trading partner with the United States, Mexico is a diverse country that offers excellent business opportunities, especially for franchise concepts from the United States, given the commercial ties between the two countries and the recognition and acceptance of U.S. brands by Mexican consumers.

Franchising in Mexico, as in any other country, requires a long-term commitment. U.S. franchisors must commit human and financial resources, patience and time for their concept to succeed in the Mexican market. U.S. franchises must be aware that the Mexican market is dominated by local franchises. For a franchise concept to be successful in Mexico, the concept and its characteristics must be adapted or customized to suit Mexican tastes.

Traditionally, large cities, such as Mexico City, Monterrey and Guadalajara, have been the first option for locating a new franchise concept. Nevertheless, the creation or development of franchise business opportunities has also been successful in smaller cities. This trend is due to these

populations looking for new products or brands, including international concepts.

Current legislation has created a favorable environment for the development of domestic and international franchises. A 2006 amendment to the Law of Industrial Property provided a clearer definition of a franchise and mandated requirements for franchise agreements and standards for pre-sale franchise disclosures. These amendments have helped to protect franchisees from abuse from franchisors when executing or terminating agreements. This has allowed for further expansion of the franchise sector. Franchise agreements must be registered with the Mexican Institute of Industrial Property in order to be effective against third parties.

Although the food and restaurant segments of the franchise sector in Mexico continue to be very popular franchise concepts, the services segment is rapidly growing. Services, such as entertainment concepts for children and personal and home care services, have great potential in the Mexican market.

Foreign franchisors not having a permanent establishment for tax purposes in Mexico but obtaining an income from a source located within the Mexican territory are normally taxed on income (federal tax), and the tax (10 percent) is paid in Mexico by the foreign franchisor through retention

or withholding made by the corresponding franchisee.

According to the Mexican Franchise Association (AMF), Mexico has over 13,000 franchise concepts, including international brands that are predominately from the United States. About 85 percent of the franchises operating in the country are Mexican brands, 6 percent are from the United States, 3 percent from Spain and the remaining 6 percent of the market is shared by Canada, Central and South America, and Europe. Firms from other Latin American countries are finding Mexico to be their best option to expand internationally. The Mexican Franchise Association has worked closely with the Secretariat of Economy to create new programs to support the development of the sector. In 2008, the National Franchise Program (PNF) was created to promote the creation, re-engineering or acquisition of franchise concepts. This program helped approximately 800 franchise concepts (mostly national) to increase their presence in the Mexican market. In 2012, the sector reported 12 percent growth.

Under the Peña Nieto Administration, the Secretariat of Economy created the National Institute of the Entrepreneur (INADEM) to further grow the sector. In January 2014, INADEM announced the Financing Program for Franchises, a collaborative effort with the commercial banking sector. This initiative supports investors and entrepreneurs through finance programs for the acquisition of local or international franchise concepts. For 2015, INADEM had a budget of 9 billion pesos (approximately \$65 million) available for this program.

World Economic Forum's Global Competitiveness Index (GCI):¹

Mexico's overall ratings rose from last year, but many issues drag on its ability to compete in the world's marketplace, including corruption and how its government officials are perceived.

Government/Regulatory

Mexico's public institutions still rate low in property and intellectual property rights protections, which are main concerns for U.S. firms, including franchisers. Corruption is still considered the most

Mexico	
Competitiveness Index	Score (1-7)
Government/Regulatory	3.2
Labor Force	3.9
Infrastructure	4.2
Demand/Business Factors	4.6
Industry Interest*	6.8
4.54 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	125.4 million
GDP	1.295 trillion
GNI, per capita (PPP)	\$16,640
Income Level	Upper Middle
Unemployment	4.9%
Inflation	4.0%
World Bank (2014)	

problematic factor for doing business in Mexico. The ranking for efficiency of Mexico's legal system continues to fall, indicating the risks of conducting business in Mexico.

Labor Force

Mexico's inefficient use of talent and its inability to retain and attract talent continue to drag on its economy.

Infrastructure

The efficiencies of Mexico's financial system have improved while its transportation infrastructure rating continues to be low, led by problems with its rail system. Electricity inefficiency and lack of reliability remain an issue as well.

Demand/Business Factors

As the second largest market in North America, Mexico offers U.S. companies over 125 million consumers.

Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Mexico was ranked third.

Resources

U.S. Commercial Service – Mexico

<http://www.export.gov/mexico/index.asp>

Mexico – Country Commercial Guide (CCG)

<http://export.gov/ccg/mexico090857.asp>

Mexico - Franchising

<http://apps.export.gov/article?id=Mexico-Franchising>

Mexico Franchise Association

<http://www.franquiciasdemexico.org>

Mexico - Protecting Intellectual Property

<http://apps.export.gov/article?id=Mexico-Protecting-Intellectual-Property>

Industry Expert's Take:

The drop in the Peso against the U.S. Dollar is hampering new licensee investment. Food and beverage remains the best chance for finding new licensees, while service franchises are experiencing difficulty finding partners.

William Edwards, Edwards Global Services, Inc., December 15, 2015

¹ World Economic Forum, The Global Competitiveness Report 2015-2016