



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

United Kingdom

The United Kingdom's market is mature, sophisticated and, in many areas, saturated. To succeed here, a franchise must offer a concept that is truly unique and different from what is already available to a highly discerning customer base.

Country to Consider

Though U.S. brands have a strong interest in the UK market, this does not necessarily translate to a market opportunity. The UK is an extremely competitive environment to enter for international franchising concepts. The domestic franchising market is thriving in the UK, which makes market entry for international brands difficult.

Although the UK is open to international business and scores extremely well in the World Economic Forum ratings, the U.S. franchising industry experiences unique barriers and issues in this market.

Access to Capital: UK banks are hesitant to loan to franchisees and require pilot locations with at least one year of operation and projections for year one, three and five business plans.

Foreign Direct Investment: As a result of difficulties in obtaining capital in UK, FDI is a key component of market entry, and many of franchising brands may not be ready for that level of commitment to the market.

Property and physical locations: Aside from being extraordinarily expensive in terms of rents and contracts, many landlords will not or are reluctant to rent their premises to franchisees. Landlords prefer to deal with corporate entities because they can easily meet the contract requirements and can

absorb any rental costs not covered by running the business.

Market Saturation: The franchise market in the UK continues to be saturated. As a result of the lack of past success and weak future forecasts for U.S. franchise concepts in the UK, the franchising sector is no longer monitored by a commercial specialist in the United Kingdom. Therefore, the U.S. Commercial Service in the UK does not provide focused resources for the franchise industry.

According to the 2013 British Association Industry report (2012 data), franchising contributed \$21.9 billion to the UK economy. This equates to just less than 1 percent of GDP. In 2012, there were 930 franchise systems in the UK (up by one franchise from 2011) with 37,300 franchised units (down 3 percent from 38,400 units in 2012). The largest 9 systems operate just under 7,000 units between them. There are an estimated 22,400 franchisees in total, with one in four running multiple units. UK franchisees employ 594,000 staff. Just under one-third of franchises operating in the UK are members of the British Franchise Association (BFA).¹

U.S. businesses looking to franchise within the UK will likely find that the market is quite robust and friendly to franchise systems in general. There are a number of laws that govern the operation of franchises within the UK, but these laws are fairly broad and generally do not constrain the

competitive position of U.S. businesses. The potential franchisor should take care to look not only at EU regulations but also at the local laws concerning franchising and specific business sectors.

The UK has no specific laws governing franchising. The British Franchise Association operates a voluntary code of practice for franchisors.²

As noted earlier, entering the UK franchise market and succeeding is a challenge. Companies that demonstrate a commitment to the market and perform adequate research into their industry, however, will most likely do well here. Making the appropriate approach may reap highly rewarding results, as UK success is often used as a springboard into the rest of Europe.³ Although the UK economy is starting to grow again, financial losses in the recession have resulted in lenders and investors taking a measured and cautious approach to new business ventures. Franchisors seeking to establish operations quickly, within months, will struggle in the UK as it can take a significant amount of time to find a suitable partner. New franchises must prove themselves in this market.⁴

World Economic Forum's Global Competitiveness Index (GCI)⁵

The country has developed a vibrant service sector to lead the European markets in this area. The UK government is known to be business friendly.

United Kingdom	
Competitiveness Index	Score (1-7)
Government/Regulatory	5.3
Labor Force	5.3
Infrastructure	6.0
Demand/Business Factors	5.4
Industry Interest*	6.0
5.6 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	125.4 million
GDP	\$2.989 trillion
GNI, per capita (PPP)	No data
Income Level	High
Unemployment	6.3%
Inflation	1.5%
World Bank (2014)	

Government/Regulatory

The United Kingdom is an attractive market due to its advanced and transparent government and regulatory environment. Its open and efficient legal system provides a secure marketplace that attracts foreign investment. The UK has strong intellectual property protection and enforcement, which are important factors for franchises seeking to establish in the UK.

Labor Force

The United Kingdom continues to be home to some of the best universities in the world, which ensures a well-educated workforce.

Infrastructure

Boasting one of the best infrastructures in the world, the UK's electricity and phone infrastructure is highly regarded globally. The government has invested in its transport infrastructure, which is important to the franchise industry. In addition, the UK's financial system is one of the best in which to conduct business transactions.

Demand/Business Factors

Still hurting from the latest global financial crisis, the UK financial market remains strong and is still able to provide banking and financial services for entrepreneurs, including franchisees. Finding quality suppliers for franchise firms is also not a problem in the advanced UK economy.

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, the UK was ranked eighth.

Resources

U.S. Commercial Service – United Kingdom
<http://www.export.gov/unitedkingdom/>

United Kingdom – Country Commercial Guide (CCG)
<http://export.gov/ccg/unitedkingdom090963.asp>

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

The British Franchise Association
<http://www.thebfa.org>

The European Franchise Federation
<http://eff-franchise.com>

Industry Expert's Take

The economy is growing at a positive rate. New franchise investment is happening. The main challenge is that British licensee candidates want foreign brands to open a test unit before committing to a license.

William Edwards, Edwards Global Services, Inc., December 16, 2015

¹ Franchising, CS Europe – Regional Sector Report, December 2015

² <http://apps.export.gov/article?id=United-Kingdom-Franchising>

³ Franchising, CS Europe – Regional Sector Report, December 2015

⁴ Franchising, CS Europe – Regional Sector Report, December 2015

⁵ World Economic Forum, The Global Competitiveness Report 2015-2016