



Country or Region: Bulgaria

Franchising Opportunities in Bulgaria

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Summary

The global economic uncertainty brought jitters to investors and scared away some of the foreign franchisors that planned to come to Bulgaria. For a first time the franchising industry did not enjoy some growth in the small Balkan country, as less people refrained from venturing into franchising business. Franchise industry in Bulgaria had a slight downswing in 2009 and in early 2010, due to the global and local economic recession. While the franchise system had become a very popular scheme for businesses to grow faster, the majority of the Bulgarian entrepreneurs had recently faced hurdles like:

- difficult access to credit;
- high unemployment in many markets that affects demand;
- reduced spending by consumers in some markets;
- though the safest way of opening a business franchising also has risks.

Market Overview

Franchising as a marketing method is now well-known and relatively well developed in Bulgaria. The Bulgarian market for years has been ready for the many products and services that are typically marketed and sold by foreign franchise companies. Bulgarian consumers are looking for retailers that can provide a consistent selection of quality products, reasonable prices and good service. The Bulgarian consumers are willing to pay a premium for a convenient, quick and professional service and best quality products. Only a small number of Bulgarian and foreign companies have developed the retail market on a national level. Some foreign companies already have a franchise or licensed presence in Bulgaria. At this point the transitional nature of the Bulgarian retail trade presents foreign and Bulgarian companies with unique opportunity to enter the market.

A favorable factor for the development of franchising in Bulgaria is the existence of a considerable number of potential franchise partners. These are privatized or newly established private companies. They are looking to expand their activities in Bulgaria and abroad and one may be impressed by their entrepreneurial spirit and their willingness to consider franchising as a new option for business development. In spite of franchising being a relatively new concept for the Bulgarian business community, the Bulgarian business system accommodates franchise agreements nicely. Laws on labor relations are clearly spelled out, leases can be freely negotiated and the legislation protects trademarks, patents and copy rights. The combination of a retail

sector in a process of development, an underdeveloped service sector, strong local demand for products and services of consistently high quality, and a large number of West-European tourists who are familiar with the logos and trademarks of Western franchise companies, make the Bulgarian market attractive for expansion.

Best Prospects for U.S. Companies

Franchising is most apparent in the fast-food sector with many local and internationally recognized fast-food franchises operating in Bulgaria. Among the most visible brands in Bulgaria are: McDonald's, KFC, Dunkin Donuts, Subway, Pizza Hut, Burger King.

Sectors with the most significant potential for U.S. franchisors include cosmetics and beauty; automotive products and services; restaurants; hotel management; services in repair and configurations of computers; laundry and dry-cleaning and employment/educational/training services. Good franchise opportunities include convenience stores; textile and clothing industry; ice cream/yogurt stores; hardware stores; furniture and home accessories; specialty retail stores; commercial and residential cleaning; equipment rental centers; recreation and spa facilities/equipment and services; baked foods, candy and snacks.

Bulgarian companies consider franchising as a vehicle for expansion and they are also profiting by the advantages of being a franchisor - Happy Bar & Grill (restaurants), Jeff (local chain of distribution of products for mobile terminals); Veni Style (chain of clothing for women); Address International Franchising (real estate brokerage), Polycontact (recruitment, employment, training services).

A study conducted in Bulgaria showed clearly that the branches characterized with proven profitability, fast moving assets and relatively fast return of investments are tourism, food industry, retail stores, services. Known as a country with a low credit rating, investing in franchise projects should be oriented towards the most perspective economic sectors which supply goods and services to end users (retail market), and directed to consumers in the big cities (Sofia, Varna, Plovdiv, Bourgas) where the population has relatively high disposable income.

Legal Framework

Unlike the agency relationship, the franchise is not governed by statute. Thus, no specific requirement to either of the parties to a franchise exists, except for the necessity to observe general legal principles and rules, as well as special regulations that may apply depending on the structure of the particular franchise relationship.

A franchise agreement may be regarded as a vertical agreement that is intended to prevent, restrict or distort competition on the relevant market, or may result in such prevention, restriction or distortion. Vertical agreements are generally prohibited under Bulgarian Competition Law (the "General Prohibition"). The Law on Protection of Competition prohibits agreements between undertakings, decisions of connected or associated undertakings, as well as concerted practices, which have as their object or effect the prevention, restriction or distortion of

competition on the relevant market through direct or indirect price fixing, market sharing or sources of supply, limitation or control of the production, trade, technical development or investments, application of dissimilar conditions to the same type of contracts in respect of certain parties, thereby placing them at a competitive disadvantage, as well as tying arrangements.

Notwithstanding the foregoing, provision is made for certain exceptions to the General Prohibition, namely the General Prohibition does not apply to vertical agreements with a negligible effect on competition. Such effect is deemed to be negligible where the combined market share of the parties to the agreement does not exceed 10% of the relevant market (if the parties are competitors) or 15% of the relevant market (if the parties are not competitors). Further, the General Prohibition does not apply to vertical agreements granted an individual exemption by the Bulgarian Competition Protection Commission and to vertical agreements between small and medium-sized enterprises which are granted an individual exemption by the commission by reason of the fact that such agreements improve the competitiveness of the enterprises concerned. The General Prohibition does not apply to vertical agreements falling within the scope of the block exemption granted by the Competition Protection Commission.

Exclusive purchasing clauses normally fall within the scope of the General Prohibition, where price fixing is not covered by the block exemption.

The application of the block exemption to a franchise agreement is subject, among others, to the following conditions having been met by the IP-related clauses in the franchise agreement. Firstly, the assignment or use of IP rights should not be the primary object of the franchise agreement but should only be ancillary thereto. The primary object of the franchise agreement should be the use, sale or resale of goods or services by the franchisee or its customers. The block exemption refers to franchise agreements as an example of exempt vertical agreements only. A franchise agreement is defined in the block exemption as an agreement under which the franchiser sells (supplies) to the franchisee goods for resale licensing at the same time the franchisee to use a patent, trademark, industrial design or know how. The second condition to be met is for the IP rights to be assigned to or used by the franchisee.

The IP license would be valid if granted by a written contract. The particular contract may provide for exclusivity as to the use of the licenses object. The use of the IP might be limited to certain goods/service only and/or to part of the territory only. The license granted as a part of the franchise scheme should be registered into the respective registry kept by the Bulgarian Patent Office as a condition for its validity thereof vis-a-vis third parties.

As no specific rules regarding the franchise agreement exist, no general restrictions to its duration apply. However, if, the franchise incorporates a lease arrangement, the provisions regarding the term of the lease will apply. Namely, under Bulgarian law a lease agreement may not be concluded for a period longer than ten years. If longer, it is reduced by operation of law to ten years.

Forms of Franchising

All forms of franchising can be applied in Bulgaria. No specific requirements or restrictions exist for the entry of a foreign franchisor. The prevailing methods employed are direct (unit) franchising, master-franchising, regional development, joint-venture and establishing affiliates.

Due to the relative small size of the Bulgarian market, franchisors usually grant master franchises for the region, the Balkans or Eastern/South-eastern Europe. Currently most outlets are company-owned or owned by foreign master franchisor (Starbucks Coffee). Some foreign franchisors have a single franchisee in the country and as a rule it is set up in the capital of Bulgaria.

The franchisee often is a regional developer or simply develops multiple units (Berlitz, ERA, Century 21). The quick-service companies and the larger franchisors, such as Office 1 Superstore, Shell and OMV, have developed numerous outlets in major cities throughout the country. Office 1 Superstore, for example, has established a presence in 87 cities in the country, and developed more than 30 units in the capital alone. As of mid-2009, over 80 franchisors offer their franchise rights to potential franchisees in Bulgaria. 62% of these franchisors are Bulgarian companies and 68% of them have been on the market for more than 5 years.

The highest number of franchising systems (over 15) operates in the fast food and restaurant business. 7 companies offer franchise for starting a business in the real estate sector.



For the period 1 January – 1 September 2009, some 8% of the franchisees dropped out of the business. The main reason for closing sites down is the insufficient capital available to resist the harsh economic conditions. In interviews, it became clear that as a reason for dropping out of the franchise systems 63% of interviewed indicated the high rental costs which, after the setback of the economic environment in Bulgaria, turned some businesses unprofitable. According to 49% of the interviewed, the main reason for the deteriorated activities was the decreased purchasing capacity of customers. 19% believed they did not research the business well before undertaking the step to buy a franchise. Only 16% of those who had dropped out thought that franchisors did not provide enough support. 12% gave other reasons (family, health issues, competitor's appearance nearby, etc.)

By the end of 2007 the number of companies operating in Bulgaria as franchises had been 776. New 702 units were opened in 2008, which constitutes an increase of 90% in the course of a year. Franchisors expect that firms operating as franchise establishments within Bulgaria to be more than 2900 by the end of 2010.

Key Contacts and Professional and Trade Associations

Franchising.bg (Bulgarian franchising media)

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The Bulgarian franchising media covers a wide range of franchising topics. The company is organizer of the major Franchise Expo in Bulgaria. It's second issue will be held in Sofia in November 26-27, 2010.

Bulgarian Franchise Association

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The primary goal of the Franchise Association in Bulgaria is to bring new brands to the Bulgarian market and to assist them in the establishment of franchise networks using the best proven techniques.

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Franchise educational site helping franchisors and potential franchisees in Bulgaria. The site offers legal help and assistance and acts as a franchise broker promoting Master franchisee opportunities of many companies.

For More Information

The U.S. Commercial Service in Sofia Bulgaria can be contacted via e-mail at:

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