

THE FRANCHISING SECTOR IN PAKISTAN

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The concept of franchising has gained wide acceptance in Pakistan. Major U.S. franchise operations in Pakistan include Pizza Hut, KFC, Dunkin Donuts, Domino's Pizza, Papa John's Pizza, Hardees, McDonald's, TGI Friday's, Subway, Taco Maker, Nacho Nana's, Sheraton, Day's Inn, Best Western, Nike Retail, UPS, FedEx, Princeton Review, Berlitz, Gymboree, Gloria Jean's Coffee, Hertz and Avis. KFC already has 64 outlets in Pakistan and several more in the pipeline. McDonald's has 27 restaurants. New franchise concepts are opening all the time, most recently Nine West and Fatburger. U.S. Franchisors either find franchisees directly, or through Middle Eastern master franchisees.

U.S. companies dominate the franchise market in Pakistan in large part due to the fact that U.S. firms were the pioneers in this sector, and have the strongest marketing to support their brands. Many U.S. products such as McDonald's and KFC were well-known and recognized in urban areas of Pakistan even before starting their operations in the country. Of course, Pakistanis appreciate their superior quality control and customer services standards, too.

Pakistan is the 27th largest economy of the world in terms of purchasing power. Its population of 180 million, the sixth largest in the world – largely young, fast-growing and with an expanding middle class with growing disposable income and widespread access to electronic media – make it an excellent market.

A key consideration in establishing a franchise operation in Pakistan is quality control, particularly if the enterprise proposes to use locally produced items. In Pakistan, all imported food items -- particularly meat items -- must be certified "Halal" (slaughtered in accordance with proper Islamic ritual).

U.S. firms are, of course, advised to identify a number of candidates and evaluate each carefully. Prior to entering into an agreement with a local company, U.S. firms may perform due diligence by using the International Company Profile offered by the Commercial Service on the local company.

The franchise agreement must be carefully drafted to protect the interests of the parties. The franchisor must be able to retain some direct control over operations, even after transfer of business and technical know-how. Crucial elements of the franchise agreement include territorial coverage, duration, franchise rate, and protection of trade secrets, quality control and minimum performance clauses. The U.S. firm should ensure that its patents and trademarks will be registered in its own name rather than that of the franchisee.

The Government of Pakistan does not impose any restrictions on investors, but foreign investors are required to inform the Board of Investment and the State Bank of Pakistan, primarily for the purpose of repatriation of franchise fee or any profits accrued.

