



U.S. Commercial Opportunities in Panama's Franchise Sector

July 2010

Summary

Panama's franchising sector is very dynamic and offers excellent opportunities for U.S. franchisors. Panama is highly receptive to U.S. franchise concepts and the economy has shown strong and consistent growth over the last decade.

About 95 percent of the total number of franchises in the country are foreign. There are only a few local franchises, limited to the food sector. The U.S. is the market leader but competition is increasing from Central America, Colombia, and some European countries.

Main factors determining successful market penetration are brand name recognition, competitive prices, product quality, and strong promotion.

There are no major restrictions for franchise operations in Panama. There are no special laws covering the franchising sector. General commercial law applies when dealing with franchises.

The U.S. Dollar is legal tender in Panama and there is a well-developed banking system, which facilitates business transactions. Most banks are familiar with the franchise business.

Market Demand

Panama has a service-oriented economy. Over 70 percent of the GDP comes from the services sector. Services include the Panama Canal, ports, flagship registry, banking, insurance, government, and the Colon Free Zone.

Panama has a population of 3.5 million, of which almost 1.5 million (43%) live in the greater Panama City metropolitan area (Panama, San Miguelito, Arraijan, Chorrera and Balboa). Other major cities are Colon, David, Chitre and Santiago. Panama has the highest per capita income in Central America (over \$5,000 per year).

Economic growth in Panama has been consistent over the last decade, showing strong growth rates in the last five years as opposed to most countries in Latin America. Many large projects have been responsible for this continued growth including the expansion of the Panama Canal; construction of tourism facilities and residences for foreign retirees; power generation facilities; ports, and road construction.

Market Data

Ever since the first franchises were established in Panama, food-oriented franchises dominated the market, led by McDonald's and other well-known brands such as KFC, Wendy's, Friday's, and Subway.

The rapid development of the franchise sector has been influenced by a series of factors including the construction of large shopping malls in the capital and in other important cities in the country, the culture of dining out, and the presence of a relatively large middle class with strong demand for sophisticated goods and services. Franchise development has been led by U.S., Colombian, Central American and Panamanian concepts.

Panamanians are highly receptive to U.S. culture and business practices. U.S. franchises are well regarded and accepted in Panama. Many Panamanians have traveled to the U.S. and are familiar with U.S. franchise concepts.

There are no reliable figures on the franchise sector. Industry sources estimate that there are now more than 100 franchisors, accounting for over 600 outlets at the end of 2009. The market is estimated to be growing at an annual rate of about 15 percent per year.

Foreign franchises dominate the local market with 95 percent of the total number of franchises in the country. The rest are local franchises, mainly in the food sector. The U.S. is still leading the sector, but Colombian, Central American, and European franchises have also been established successfully. It is estimated that the U.S. has over 70 percent of the foreign franchise business.

Approximately 90 percent of foreign franchises are found in the metropolitan area of Panama City. The rest are located in the cities of David (in Western Panama), Colon (on the northern coast), and Santiago (in Central Panama). The franchises operating outside the Metropolitan area are mostly in the fast food business.

Major competitive factors for a successful market entry are innovative products, competitive prices, product quality, and strong promotion and positioning of branding. Other important considerations are promotion in mass market events, newspaper, radio and TV advertising, and billboard advertising.

Best Prospects

The market is continuing a diversification trend with new franchises entering the market in different sectors such as commercial and home cleaning, security services, pest control, beauty services, flower arrangements, mail, and packaging services. Food franchises, including fast food and casual dining, however, continue to lead the market.

Market Entry

Panama has no special franchising laws. Therefore franchising companies are subject to the same commercial laws as any other company doing business in the country. Contracts can include an arbitration clause, which we strongly recommend, to avoid the cost and delay of using the local court system. The Panamanian arbitration tribunal is managed by the local Chamber of Commerce, Industry and Agriculture. Panama has no franchising business association.

Protection of intellectual property is relatively efficient and provides a stable climate for foreign investment. The law of Intellectual Property was passed in 1996 and has been enforced with relative success.

In 1996 the Government of Panama passed Law No. 29, dealing with competitive practices and other issues. The law included the creation of a Commission of Free Competition and Consumer Issues (acronym in Spanish: CODECO) and established courts to deal with consumer issues. Both the Court and CODECO are responsible for resolving individual or collective claims resulting from the applications of the above mentioned law in aspects related to monopolies, consumer protection, unethical practices, trademark protection, representation and distribution, etc.

Market Issues & Obstacles

Panama does not have major restrictions or any types of barriers regarding franchising operations.

One of the advantages that Panama offers is the use of the U.S. Dollar as legal tender, and the presence of a well-developed banking system, which facilitates financing, payment of royalties and importation of products and raw materials. Most banks are familiar with the franchise business. Typically, franchise investors are well-connected businesspersons and have well-established relationships with banks.

Panamanian law establishes a 30% withholding tax on 50% of the royalty payments. This rate is equivalent to a flat rate of 15% of the royalty payment. The franchisee is responsible for withholding this tax for payment to the government revenue office.

Trade Events

Expocomer 2011

Panama City, March 23-26 , 2011

Website: www.expocomer.org

Contact Us.

Panama's ratio of opportunity/barriers to market entry in the franchise sector is extremely attractive. We strongly advise you to develop a local relationship with the U.S. Embassy due to the high level of initial investment needed by local partners, and the contractual obligations inherent in this sort of business deal. Please contact us if you have a franchise that has done well in the U.S. - chances are good that it will do well in Panama and that there are investors who will be interested in it. Panama is a regional air hub and we are always willing to meet with you here at the U.S. Embassy. We know the market and we have good relationships with local investors, lawyers, and accountants. And if your franchise concept is competitive in Panama, we can help you make money here. Our Senior Commercial Specialist who focuses on this sector is Enrique Tellez. His contact information is below.

For More Information

The U.S. Commercial Service in Panama can be contacted via e-mail at: enrique.tellez@trade.gov;
Phone: 011-507-207-7080; or visit our website: <http://www.buyusa.gov/panama/en/>.

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Comments and Suggestions: We welcome your comments and suggestions regarding this market research. You can e-mail us your comments/suggestions to: Customer.Care@mail.doc.gov. Please include the name of the applicable market research in your e-mail. We greatly appreciate your feedback.

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