



PERU: Overview – Franchise Sector

Flora Muroi
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SUMMARY

The Peruvian market for franchising continues to grow and is presently composed of approximately 100 different franchises, with some 1,000 outlets. About 70% are foreign owned and the remaining 30% Peruvian. Official figures on the franchise sector are not available; however, industry experts estimate that the total 2007 market size of the sector in Peru was estimated at \$500 million.

There is no special legislation for franchising in Peru. Thus far, franchise companies operating in Peru are subject to regular trade laws; Decision 486, Decision 608, Decision 291 of the Andean Community and the general antitrust law, including a withholding tax on royalties (30 percent), value added tax of 19 percent and import tariffs that vary according to the type of goods.

As in most global markets, fast food is the most popular sub-sector in Peru's franchising scene. However, the areas with potential for growth include security and cleaning services, internet cafes, pre-school educational training, entertainment services for children, fitness centers, spas, and nursing, senior care and home care services.

MARKET DEMAND

Peru's strong economic performance in recent years has been aided by market-oriented economic reforms and privatizations in the 1990s, and measures taken since 2001 to promote trade and attract investment. High global prices for minerals, Peru's principal export, have also contributed to the country's recent economic vitality. Peru is experiencing economic growth of more than 5 percent since 2004. In 2007, Peru's GDP was estimated to be at \$109 billion or approximately \$3,865 per capita.

Peru has a population of 28 million, of which almost one third live in Lima, the capital city. An increasing demand for modern and convenient commercial shopping centers in Lima and other cities of the country has made the franchising model popular with local investors and consumers. At present, most of the franchise outlets are located in Lima; however, franchisers have started to establish outlets in other cities such as Chiclayo, Trujillo, Piura, Arequipa and Cusco.

MARKET DATA

There are no reliable figures on the franchise sector. Based on industry estimates, about 100 franchise companies are thought to be operating over 1,000 outlets at the moment. Foreign-owned dominate the Peruvian market with around 70 percent, led by the United States.

The U.S. introduced the concept of franchising in the 80's with KFC and it still enjoys the highest market share at almost 50%. Major third country players are Spain, Mexico, Argentina, Canada, Brazil and Colombia.

COMPETITION

U.S. Market Position

Many well-known American companies are represented in Peru. Among the fast food/restaurant firms present are McDonald's, Burger, King, Pizza Hut, KFC, Starbucks Coffee, Papa John's, Domino's Pizza, Dunkin Donuts, TGI Friday's, Chili's, Tony Roma's, Benihana, and Hooters. Non fast food franchises include Martinizing, Gold's Gym, World's Gym, Curves, Gymboree, Cinemark, Radio Shack, Coldwell Banker, and GNC.

Domestic Firms

The first Peruvian company to start a franchise business was the grilled chicken company, Mediterraneo Chicken in 1992. There are currently 30 Peruvian companies in the franchise sector, concentrated in the fast food/restaurant sub-sector. The most significant local franchises are: Bambos Burger Grill (hamburger business); Pardo's Chicken, Mediterraneo Chicken, Parrildas Rocky's, La Caravana, las Canastas (broiled chicken); La Romana, Pizza Raul, Pastipizza (pizzas); China Wok (Chinese food); Segundo Muelle, Alfresco, La Mar, El Pez de Oro, Brujas de Cachiche (Peruvian style restaurant); Bohemia, Bocatta, Astrid & Gaston (fine dining); Heladeria 4D (ice cream); Eyes Illusion (optician) and Rosatel (flower shop).

Peruvian gastronomy has become very popular in Latin America and with the assistance of the Peruvian Export Promotion Office, a number of Peruvian fast food and restaurants have gained markets in countries such as Mexico, Chile, U.S., Bolivia, Argentina, Brazil, Colombia and Spain.

Third Countries

Third country companies make up approximately 20 percent of Peru's total franchise market. Firm presently operating in Peru include: Laverap-Argentina and Pressto-Spain (dry cleaning service); Diversiones Moy-Mexico (entertainment) Yogen Frutz-Canada (yogurt), O'Boticario-Brazil (cosmetics and toiletries) Pilates-Argentina (gym), Crepes and Waffles-Colombia (coffee shop); Inlingua-Switzerland (language school); GiraMondo-Italy (travel agency); and Alfa Inmobiliaria-Spain (real estate).

BEST PROSPECTS

The fast-food and restaurant concepts are still the leading the franchise sector in Peru. Other sub-sectors with promising potential include internet cafes, pre-school educational training, entertainment services for children, fitness centers, spas, security system and services, and nursing, senior care and home care services.

MARKET ENTRY

There is no special legislation governing franchising. Franchises in Peru are subject to general commercial law: Decision 486, Decision 608, Decision 291 of the Andean Community, and the general antitrust law. According to articles 162 through 164 of Decision 486, a written license agreement must be registered at the patents and trademarks office (INDECOPI-www.indecopi.gob.pe.) Prospective franchisors need to be aware of a 30% income tax on royalties, 19% value added tax (paid by the local company) and import tariffs of 0, 9, and 17% depending on the type of goods. Countries that have signed double taxation agreements with Peru have a different regime on royalties and withholding income tax (the U.S. is not included.)

It is advisable to appoint local legal counsel to successfully navigate Peru's informal business practices and bureaucracy. An attorney should be aware of matters concerning taxes on corporate and branch income, which have an identical regime, corporate residence, value added taxes, income determination, capital gains, inter-company dividends, stock dividends, depreciation and depletion, net operating losses (tax losses) and payments to foreign affiliates.

As with most market, a factor to successfully enter the Peruvian market is price and quality. In addition, another important factor in finding good franchisees in Peru is the flexibility to make some changes in the basic standard agreements to adapt to Peruvian trade and cultural practices. For example, Domino's Pizza has included seating areas in their outlets, KFC and Burger King are serving "aji" (Peruvian chili sauce) and McDonald's has included "Inca Kola," the top selling Peruvian soft drink.

MARKET ISSUES AND OBSTACLES

There are no major restrictions for establishing franchise operations in Peru. As a result of U.S. Congressional approval in December 2007 of the U.S. Peru Trade Promotion Agreement (commonly referred to as the U.S.-Peru Free Trade Agreement, or FTA) expected to enter into force as early as the beginning of 2009, U.S. companies will have greater access to the Peruvian market. Under the previously existing Andean Trade Preferences and Drug Eradication Act, Peruvian firms have been able to export a wide-range of goods to the United States duty-free. The FTA will afford similar treatment to most U.S. goods entering Peru, making 80% of U.S. consumer and industrial products eligible for duty-free access into Peru immediately upon entry into force; with the remaining tariffs phased-out over ten years. More than two-thirds of current U.S. farm exports to Peru will also become duty free immediately. Enhanced access to services markets and greater protection of intellectual property right (IPR) are also contained within the Agreement. A U.S. International Trade Commission study estimated that annual American exports to Peru will be \$1.1 billion higher as a result of the FTA. Other issues to consider are the workers' benefits, payroll and withholding taxes, municipal operating permits and general labor laws.

CONTACTS

CAMARA PERUANA DE FRANQUICIAS
Av. José Pardo 138, piso 8 - Miraflores - Lima – Perú
Phone: (511) 446-5983
Fax : (511) 2413-3333

The U.S. Commercial Service in Lima, Peru can be contacted via e-mail at: Flora.Muroi@mail.doc.gov; Phone: (511) 434-3040; Fax: (511) 434-3041 or visit the website: www.BuyUSA.gov/peru

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