



Beauty Care Franchise Sector in Poland

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Summary

The beauty care franchise sector is underdeveloped in Poland and therefore may have potential for the U.S. franchises. Poland, with a population over 38 million people, is considered the largest consumer market in Central Europe. Best prospects exist for those franchising concepts that target market niches, fashion products and treatments and novelties. This report presents an introduction to the beauty care franchise sector and focuses on face, body and nail care treatments, nonsurgical esthetic medicine, dietetics and body shaping, and spa & wellness franchise networks.

Financing is the most critical element for successful entry and penetration by U.S. franchisers. Willing and well-capitalized Polish investors are difficult to identify. One of the best strategies for American companies is to establish a flagship operation in Poland or locate a partner in the U.S. or Europe who would be willing to purchase a U.S. master franchise and pursue the Polish market.

Market Overview/ Market Trends

Generally speaking, the Polish franchise market is considered to be mature. The market is dominated by domestic networks, and Polish franchises are expanding successfully abroad. The growth of this sector is projected at a rate of approximately 20% annually over the next several years.

According to PROFIT system, at the beginning of 2009 there were over 480 franchise networks, an increase of 25% over 2008 and employment exceeded 230,000 people. The most popular franchise types are fashion and catering in the retail and services sectors. In 2008, almost 19,000 franchisees owned 22,700 businesses and invested over USD 450 million in their own franchising businesses. The average investment amounted to USD 100,000, however the most popular are franchises valued at less than USD 20,000. This price is enough to invest in small retail or services outlet. The most expensive investments involve supermarkets and petrol stations at a cost of over USD 2 million.

The entire beauty care market is very competitive and growing steadily. There are a large number of local and foreign beauty salons offering a wide range of advanced and innovative face, body, hand and feet treatments, massages, water treatments, dermatologist's advice and hair-dressing services. Body treatment programs include peeling, application of various cosmetic preparations, massage, spa capsule or electric blanket and tanning treatment. Beauty salons offer specially designed face and body treatments suited to the individual needs of the skin. The programs are continuously enriched by a new and appealing proposals and applications at the cutting edge of cosmetology. Salons often combine alternative and traditional approaches including acupressure, reflexology, and various types of massage techniques. Dermatologists solve both cosmetic and strictly dermatological problems and can perform advanced and highly specialized beautifying and curing therapies, including dermatological aesthetic treatments. Also, hair care studios offer a full range of hairdressing services including professional consultations, hairstyling, coloring, permanent curl, hair lengthening and thickening and others. Almost all hair care studios update their haircuts and coloring offer, follow the newest trends in hair fashion and provide training for their staff. There is a trend to provide extensive services. Most hair studios offer nail care treatments, facial make-up, waxing and similar beauty services. Also beauty care salons tend to extend their offers to meet customer's expectations.

The main barriers for development of franchise sectors are:

- Shortage of financing (lack of special banking products)
- Limited number of requested locations
- Low knowledge of franchise business
- Limited number of qualified franchisees

Official Polish statistical reports do not track the franchising industry. Therefore there is no detailed data available for the Polish beauty care franchise market.

Best Sales Prospects

Market sources indicate that the best sales potential over the several next three years will be spa & wellness, one day spa, hair and nail care treatments and body shape treatments. The market is open for new franchise concepts, particularly those taking advantage of existing market niches and current trends and presenting new products and services.

Spa and beauty services are becoming very popular in Poland. Local and foreign beauty salons offer a wide range of advanced spa treatments. Spa businesses located in specialized spa centers, hotels and even lately at the airports are increasing in popularity. Poles are expected to spend a steadily increasing amount for updating their appearance. Essence face and body treatments and holistic beauty programs are more often chosen by Polish clients. Also there is a growing demand for using natural elements of therapy - water, algae, white clay, therapeutic precious and semi-precious stones, and aromatherapy essence.

The demand for body shape and weight control treatments using professional equipment and cosmetic products is also growing in Poland. This development is a direct result of the improvement of Poles' financial capabilities and their growing sophistication about the body shape and weight control field. Perhaps more in Poland than elsewhere, Poles desire a well shaped and healthy body as well as neat appearance in both their private and professional life.

Competitive Analysis

There are only about 20 beauty care franchising chains operating in Poland, however the total number of beauty care outlets, both single operation and chains is very high and steadily growing. There are also a growing number of local and foreign beauty care chains developing through a partnership system. Franchise beauty care chains are represented by face, body and nail care treatments, nonsurgical esthetic medicine, dietetics and body shaping, and spa & wellness treatments. Most foreign and local franchisors operate through combination of the company owned salons and sub-franchised operations.

Locally-Owned Establishments

Locally-owned beauty care franchise firms began operating in the late nineties, simultaneously with foreign franchisors entering the Polish market. Businesses are increasingly interested in local franchises over foreign chains and domestic beauty care franchises are expected to grow in Poland.

Among the earliest Polish franchisors was Dr Irena Eris Skin Care Institute that began development through franchising in 1997. Currently this is the biggest and fastest growing Polish beauty care franchise chain and operating a beauty salon, two luxury hotels/spa centers and 29 sub-franchised units, including three located abroad in Prague, Kaliningrad and Bogota.

Trendy Hair Fashion, established in 1985, is the biggest and one of the earliest Polish hair care franchisor. The chain operates 5 company owned salons and 67 sub-franchised and is expanding abroad. The brand enjoys great popularity in Poland and is successfully developing its franchises. The company regularly organizes training at the London Academy of Hairdressing.

The Berendowicz & Kublin hair care franchise network was established in 2004 as a joint effort of two hair stylists who acquired professional skills in prestigious European professional academies. Berendowicz & Kublinha has 5

company owned and 5 sub-franchised hair care studios located in Southern Poland. The company also runs an academy of hair design. Despite the crisis, the company is developing and expects its franchise chain to have 30 hair studios by 2013.

First Glamour nail care salon was opened in 2006. Glamour offers manicure, pedicure, facial make-up, and hair and lashes lengthening. Currently Glamour chain has one company owned and 5 sub-franchised salons in prestigious locations.

The first Yasumi, face and body care salon was opened in 2004 in Kalisz. Yasumi offers a wide range of treatments. Currently there are 2 company owned Yasumi salons and 24 sub-franchised salons operating under the Yasumi Institute of Health and Beauty name. The company offers a day spa treatment and cooperates with other Spa centers.

Other Polish beauty care chains include: 4 Health Center (health and beauty treatments, 3 salons), Time for Wax (wax hair removal, 2 studios), Budny Hair Design (hair and beauty care, 1 company-owned and 1 sub-franchised salons).

The domestic beauty care franchisors are strengthening their market's position through:

- New promotion campaigns
- Redecoration of retail outlets and improvement of service quality
- Merger with competition
- Introduction of new product lines

International Establishments

Poland's accession to the EU in May 2004 has increased European beauty care franchisors interest in the Polish market.

In 1997, the first Jean Louis David hair care salon entered Poland. There are 11 company-owned and 26 sub-franchised hair care salons in the systems. The company offers two franchise concepts: Just A Cut Quick Service (addressed to a new operation) and Affilie (addressed to already functioning salons). Also Laurent is one of the first foreign hair care company operating in Poland. Currently, there are 38 hair care studios operated in a chain and located in the biggest Polish cities.

Camille Albane, a French hair care franchise network developed internationally (500 operation worldwide). The salons offer a wide range of hair care treatments and face and body treatments. Most of Camille Albane salons are located in shopping centers and prestige locations. The Polish chain has 2 company owned and 10 sub-franchised salons.

Bailine was created in Norway in 1968 and has operated in Poland since 1998. Bailine offers advanced, nonsurgical body shaping and weight reduction treatments. The Polish Bailine franchise chain has 18 centers. Bailine's franchise is offered to woman only.

In 1996, the Polish- American clinic Collagena was the first to introduce nonsurgical face rejuvenation in Poland. The company introduced to Poland Botox, Restylane, Judvederm and Aquamid to Poland. Collagena also develops BotoXeXpress, centrally located salons. They focus on narrow specialization and offer treatments right away. The company has developed through the franchise system since 2000. The Collagena chain has 6 units in Poland. The company is determined to continue expanding through franchises both locally and abroad.

Eric Stipa, a well known French hair stylist, established his business in 1972 in France. In 1985, he opened a hair care academy where introduces haircut techniques. Since 1990 Eric Stipa has been developing internationally (currently there are 130 hair studios in Europe). Each salon offers custom-made hair style and is requested to participate in the seasonal trainings. In Poland the company operates three own salons located in Krakow and works intensively to develop through franchise network.

End Users

Poland ranks 8th in Europe with a population of over 38 million people and is considered the largest consumer market in Central Europe. There are 10 metropolitan areas across Poland each with more than 1 million people. The projected 2009 GDP growth is estimated at 0.9%, inflation at 3.5% and unemployment at 10%. In the first half of 2009, the average gross monthly salary was USD 1,100.

Demographics Table

| | |
|----------------------|----------|
| Population of Poland | 38.2 mln |
| Urban Areas (62%) | 23.6 mln |
| Rural Areas (38%) | 14.6 mln |
| Households | 13.5 mln |

The beauty care market has matured in Poland. Local and foreign beauty salons offer a wide range of advanced treatments. Face treatments are the most popular; however there is a growing demand for advanced and innovative body treatments. A client's choice of certain beauty salons depends on many factors such as a range of treatments offer, a design and location of a salon, brand of cosmetics, price and staff's skills. Women, usually well educated, constitute about 60% of customers. The biggest group of customers is the 30 – 40 year old demographic. Demand for services grows substantially before holidays and during carnival season (usually early February). Beauty habits vary according to the place of residence, level of education and per capita income. People with higher education level express higher demand and interest in taking advantage of this market offer.

From the consumer's perspective the beauty care market is growing satisfactorily. The market is very competitive. The competition for quality as well as price has resulted in a good price vs. quality ratio. The Polish consumer is becoming much more demanding, mobile and open to new and novel products. A generation of young and educated consumers is showing growing demand for luxury and high quality services.

Potential Franchisee

Unless international agreements state otherwise, foreigners have the right to establish business activity in the form of: a limited partnership, a limited joint-stock partnership, a limited liability company and a joint-stock company. The most common forms of business entities used by the typical franchisor are limited liability company (a Polish equivalent of the American closely held corporation) and joint-stock company (similar to the American public corporation).

Owner-operator small businesses are likely candidates as purchasers of a single franchise. A second group of potential franchisees includes entrepreneurs with available, but limited financial resources seeking new opportunities. This group includes educated people with initiative and creativity who possess technical skills and market knowledge. Their personal drive for success makes them attractive candidates. A third group of potential franchisees, and possibly master franchise purchasers, includes wealthy and established individuals, with successful and profitable business activities. Potential franchisees can also be found among employees who have received severance payments upon leaving jobs and wish to use their previous experience in establishing a new business.

Foreign investors could also qualify as master franchisees in Poland. Foreign investors presently own a substantial number of master franchises in Poland. Occasionally groups of investors pool their resources and purchase franchise operations in Poland.

U.S. franchisers should think not only in terms of master franchises, but also should consider licensing more than one area franchise. While lists of potential franchisees or investors do not exist, advertising in national newspapers or industry-oriented magazines is helpful. Local consulting firms may also be able to identify candidates.

Prospective franchisees should be properly screened. It is advisable to conduct a feasibility study and invest in a pilot operation prior to implementing a business plan, especially if the concept is new to the European markets. Based on our previous experience it is extremely difficult to locate a potential Master Franchisee in Poland. There are not many individuals/companies that may provide suitable financial sources for purchasing master franchise and that would be able to afford investment cost involved. We emphasize that this market requires realistic expectations from you. It is customary for a franchiser to establish at least one successful pilot project before initiating an active search for franchisees. This aspect is less important when it is a large, well-known (e.g. U.S. brand) organization, which already operates in several other European countries. Cooperating in pilot franchise ventures helps to ensure profitability and success when introducing a franchise system. U.S. firms should also be willing to provide continuing support to their master/area franchisees in advertising in local business oriented magazines or other appropriate advertising vehicles. The initial price asked for the master license is usually too high for Polish standards. American franchisers need to acquaint themselves with essential elements the Polish market before seeking to obtain a master licensee.

Market Access

There is no legal definition of a franchise in the Polish legal system. There are no laws or government agencies regulating the offer and sale of franchises. The franchisors are not required to make any specified disclosures to prospective franchisers prior to the grant of franchise and are not required to register with a government agency or obtain governmental or other approvals or licenses. The offer and sale of franchises is affected by the principles of contract law. The ongoing relationship between franchisor and franchisee after the franchise contract comes into effect is regulated by the general provisions of the Polish Civil Code and is affected by competition law, intellectual property regulations, consumer protection and tax law. Sub-franchising is permitted and is not restricted in any way.

Polish tax legislation does not distinguish between franchising and other forms of business. The exceptions to this rule are businesses where taxation is regulated by international treaties signed by Poland (Agreement on the Avoidance of Double Taxation). Such agreement has been signed by Poland and the U.S. The franchise fee is subject to a 22% VAT and 19% CIT (on the difference between franchising income and tax-deductible expenses).

Protection for a trademark is obtained by registration with the Patent Office of the Republic of Poland and remains in effect for ten years from the date of correct submission of a trademark, and not from the date of registration.

Since Poland joined the EU in May 2004, each newly-opened beauty care salon must meet EU standards and health and safety requirements. Each operation must provide a separate customer's and staff toilet and cloakroom and a cosmetics storage facility.

Market Entry

Marketing Strategies/Business Practices

Apart from obvious qualities of offering good products and services at attractive prices, a strong business concept, business support and a recognizable brand name, adaptability to the local market and adequate financial resources are the keys to success in the Polish market.

American franchisers seeking to test their systems in Poland should be aware of differences in market structure and conditions that should be considered during the strategic planning stage. U.S. franchisers often have difficulty locating willing local investors to provide sufficient capital and develop the franchise. Often, a foreign master franchise is purchased by international investors. This market requires realistic expectations from U.S. franchisers.

It is customary for a franchiser to establish at least one successful pilot project before initiating an active search for franchisees. This aspect is less important when it is a large, well-known (e.g. U.S. brand) organization, which

already operates in several other European countries. In such cases, a local master franchisee can be expected to take on the responsibility of establishing the pilot project.

Cooperating in a pilot franchise venture helps to ensure profitability and success when introducing a franchise system. U.S. firms should also be willing to provide continuing support to their master/area franchisees in advertising in local business oriented magazines or other appropriate advertising vehicles.

The search for a master licensee is very challenging and time consuming. U.S. franchisers willing to identify the proper partner should consider a well-tailored advertising campaign, cooperation with consulting organizations and participation in trade shows. Advertising is the most effective and successful tool advised for U.S. franchisers for international expansion.

The following table is a sample of the expected amount of investment in Poland requested from unit franchise purchasers. Capital requirements provided in USD.

BEAUTY CARE FRANCHISES

| Franchise System | Initial Fee in USD | Min. Investment | Number of Outlets |
|---|---------------------------------------|---|-------------------|
| 4 Health Dietetic Center (Polish) | 2,000 + 500 (monthly standing charge) | 1,700 | 3 |
| Bailine (Norwegian) | 34,000 | 6,700-14,000 (depending on outlet adaptation outlays) | 18 |
| Collagena, BotoXeXpress (Polish-American) | 20,000 | 6,700 | 3 |
| Dr Irena Eris Cosmetic Institute (Polish) | 10,000 | Determined individually | 23 |
| Dr Bardadyn | Determined individually | Determined individually | 16 |
| Glamour Nail Care Studioi (Polish) | 3,350 + 440 monthly fee | 30,000 | 6 |
| Time for Wax (Polish) | Determined individually | 50,000 | 2 |
| Power Slim (Polish) | No initial fee | Determined individually (depending on outlet adaptation expenses) | 51 |
| Yasumi (Polish) | No initial fee | Depending on conception of beauty space | 26 |

HAIR CARE FRANCHISES

| Franchise System | Initial Fee in USD | Min. Investment | Number of Outlets |
|----------------------------------|---|---|-------------------|
| Berendowicz & Kublin (Polish) | 8,500 | 35,000 | 10 |
| Budny Hair Design (Polish) | 4,500 | 25,000 – 65,000 | 2 |
| Camille Albane (French) | N/A | 42,000 (including initial fee) + 1,170 monthly standing charge) | 12 |
| Eric Stipa (French) | 6,700 + (up to 1,570 monthly charge depending on amount of hairdressers employed) | Determined individually | 3 |
| Franck Provost | 15,000 - 22,500 + 1,200 – 3,000 monthly fee | Determined individually | 5 |
| Jean Louis David (French) | 6,700 one time + 1,000 monthly fee | 34,000 – 77,000 | 37 |
| Laurent (French) | 6,000 – 10,000 monthly fee | Determined individually | 38 |
| Trendy Hair Fashion (Polish) | 350 – 1,000 depending on city | 20,000 – 27,000 | 72 |

Rate exchange: 1USD = 3.00 PLN

Financing

There is no established practice in Poland for financing franchise ventures; however financing is the most critical element for successful penetration by U.S. franchisers. Unfortunately to date, Polish banks have not introduced any financing schemes for franchisees. Governmental agencies as well as loan and surety funds grant financial support to small entrepreneurs primarily by using EU funds. However, they apply the same criteria toward franchisees as they would toward small-size entrepreneurs applying for financial assistance. Also, there are no agencies or programs that grant financial or tax incentives specifically to foreign franchisers.

Although it might be difficult for foreign companies to locate Polish investors capable of becoming master franchisees, the number of local candidates is increasing. Capital requirements set by the franchisers in the past have often been beyond the means of candidates. What is considered “no significant initial capital” in developed countries often constitutes a remarkable amount in Poland. Some franchisers offer a special leasing franchise requiring smaller outlays at the start of the business operation. Others have tried to facilitate loans directly from banks for new franchisees.

Opportunities for Profile Building

The U.S. Commercial Service Warsaw offers a wide range of products and services for American companies seeking business partners in Poland. These services include market information, assessment of an American firm's product sales potential, identification of potential representatives, including counseling, trade missions, scheduling appointments with Polish firms and organizations, etc.

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Upcoming Trade Shows

The major event for the franchising sector is:

| | |
|------------|---|
| Event: | Polish Franchise Expo |
| Site: | Warsaw, Palace of Culture and Science, Defilad Square 1 |
| Organizer: | PROFIT system Sp. z o.o. |
| Website: | www.profitsystem.pl and www.franczyza.pl |

For More Information

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