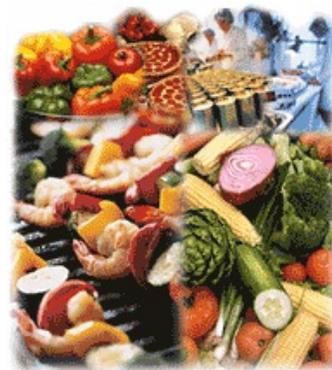


Summary

The franchise industry is very popular among Thai investors and many U.S. firms have been successful in the Thai market. There are many investors looking for opportunities in this sector because it is perceived as an attractive and relatively safe form of investment. According to local industry sources, there were approximately 400 franchise systems operating about 30,000 units in 2007 with a total value of about US\$ 2.3 billion. The number of Thai-developed franchises in 2007 was about 320 systems while the other 80 systems were international franchises. Though international franchise systems are few in number, they control 75 percent of the total market value. This amounted to US\$ 1.725 billion in 2007.



The U.S. is the leader among international franchises and controls 65 percent of the international market. The quality, standards, brands and innovation offered by U.S. franchises are well known to potential Thai investors. However franchising fees required by the U.S. companies are perceived as very high and start-ups require a huge capital investment. Under tight economic conditions, local Thai franchises are very competitive with international franchises. The local franchises require a lower initial investment and offer lower prices than international franchises. Thus, they have better growth potential than international franchises.

The franchise industry is expected to grow at an average of 15% for the next few years. Strong growth is expected due to government policies to help train and educate 80,000 people (some of these people lost jobs due to the global economic crisis) to operate franchise systems successfully. The Thai government realizes that franchises are a fast route to create jobs. The growth is also enhanced by investors who lost their businesses in the economic crisis and are looking for new business opportunities.

However, the concept of franchising is still new for Thailand and the turnover rate, particularly among local franchises, is very high. Every year, there are about 20 new franchisers who enter the market and about the same number leave the market. Most of them survive only five years. Disputes between franchisees and franchisers are reported with high frequency.

Good prospects for franchises exist in a number of growth areas especially in hospital and health care services, automotive services, pharmaceutical and cosmetic products, clothing and footwear, retail stores, construction material, telecommunication, furniture, energy, transportation, entertainment and recreation, bookstores, real estate services, education, electrical products, lodging, electronics and computers, office stationery, printing and publishing.

Market Demand

Thailand had a total of about 400 franchise systems in 2007, of which 320 were local franchises and only 80 were international franchises. Food franchises were the most popular and composed 51% of all franchise systems. The rest were education (11%), general services (12%), retailing (7%), beauty and spa (8%), printing and publishing (4%), books and videos (2%), and others (5%). According to local industry sources, a total of 400 franchise systems operated about 30,000 franchise units. Although Thailand faces both political and economic crises, overall franchise units are expected to increase by 10-15%.

The franchising business in Thailand had a total value of about US\$ 2.3 billion in 2007, an increase of 6% from 2006. The average growth of the franchising business has been at an annual 15% due mainly to the economic expansion, changing consumer buying patterns, urbanization and improving communication and transportation networks. In 2008, Thailand faced both political unrest and global economic crisis, resulting in a growth rate of less than 10%. The overall atmosphere in 2009 has improved and growth is expected to continue at 15% for the next few years.

One of the factors driving the rapid development of franchise business for the next few years is the government policy to promote Thai SMEs. The Thai government has realized that the franchise is a fast route to develop SMEs and has provided education and training programs including collaboration with government banks providing loans to franchisers and franchisees to set up businesses.

Besides having the benefit of lower capital investment, local franchisers and franchisees are more flexible and have the ability to examine tastes of and purchasing influences on local consumers. Thus, local franchises have better growth potential than international franchises. The total sales volume of local franchises was \$575 million in 2007. Local sources mentioned that most Thai investors are willing to pay about \$2,500-\$25,000 for franchise fees and will consider their budget a top priority in choosing a franchise.

Market Data

US\$ Million

	2006	2007	2008	Growth rate for the next 3 years
Total franchise sales	2,160	2,300	2,530	+15%
Sales by local firms	540	575	634	+15%
Sales by international firms	1,620	1,725	1,898	+15%
Sales by U.S. firms	1,053	1,121	1,265	+10%
Exchange rate US\$1=Baht	35	35	35	
Inflation	5.0	3.5	2.5	

Best Prospects

The best sales prospects include:

- Hospital and healthcare services
- Auto services
- Cosmetics
- Clothing and footwear
- Construction material
- Lodging
- Specialty retail shops
- Cleaning and maintenance services for office and residential buildings
- Real estate services
- Security and safety systems
- Education

Key Suppliers

International franchises were fewer in number than domestic franchises but controlled 75% of total market value or \$1,725 million in 2007. The U.S. franchises are the market leader among international franchises and control 65% of international franchise or \$1,121 million in 2007. The U.S. franchise system is well respected by Thai

people for its superiority in management, standards, and reliability. However, U.S. franchisers should be aware that there are differences among countries in values, tastes, lifestyles and perceptions. What works in the U.S. may not work in Thailand. There are many U.S. companies that have successfully adapted to local conditions and are successfully operating in Thailand. Franchising fees from U.S. franchises are perceived as very high and start-ups require a huge capital investment. By comparison, local Thai franchises require a lower initial investment and offer lower prices than international franchises, thus tending to attract smaller investors and entrepreneurs. The number of local franchises is growing very fast due to the flexibility of franchisers and their ability to know the tastes of and purchasing influences on local consumers.

U.S. franchises have not done well during the last few years due to economic slowdown and political instability. However, it is expected that U.S. franchises will grow at an average of 10% for the next few years due to the improvement in the political climate, and the weakening U.S. dollar. The devaluation of the U.S. dollar against the local currency will encourage local investors to invest more in U.S. franchises.

The following are U.S. franchises that operate successfully in Thailand: McDonald's, Burger King, KFC, Pizza Hut, A&W, Mrs. Fields, Auntie Anne's, Dunkin Donuts, Outback Steakhouse, Subway, Tony Roma's, TGI Friday, Hard Rock Café, Starbucks, The Coffee Bean & Tea Leaf, Gloria Jeans' Coffee, Au Bon Pain, Sizzler, Swensen, Bud's Ice Cream, Dairy Queen, Baskin Robbins, Haagen-Dazs, Hertz, Avis, Budget, Midas, Mail Boxes, PostNet, Guess, Levi's, Holiday Inn, Best Western, Quality Inn, California Fitness, Berlitz, ELS, English First, Direct English, ELC, Wall Street Institute, Futurekids, Math-Science, Gymboree, Kumon, Radio Shack, Blockbuster, GNC, Comfort Inns, Choice Hotels, Marriott, Intercontinental, Hilton, Conrad, Raddison

Other foreign franchises are: Boots (U.K.), Watson's (Hong Kong), APTECH Computer School (India), Grant Mobel Furniture (Germany), CinnZeO Coffee (Canada), Tsutaya Video Rental (Japan), Math Zone (Singapore), Smart Brain (Taiwan), Video EZY (Australia), Family Mart (Japan), Red Earth (Australia), Body Shop (U.K.), Café Delifrance (France), 7-Eleven (Japan)

Prospective Buyers

Local investors are very receptive to franchises from the United States. Know-how and dedication to adapting the franchise concepts, proven operational and marketing methods and financial resources to maintain the franchise over the long term, all aid in a franchise's success. Quality, name recognition, standards and innovation all play a big part in the success of U.S. franchises with Thai investors. It is important that U.S. franchisers choose the best master franchisees for not only their strong financial support but also their capability to manage the system.

Retail and convenience store franchises are more popular than food franchises. Thai consumers prefer modern shops and convenience stores. Throughout the economic crisis, Thai people have remained loyal to their preferred brands. This propensity for brand loyalty helps explain the reason why the franchise industry has a greater chance for success than independent operations.

Franchisers are usually open to all candidates but some may show preference based on age, experience, financial capacity, sex and marital status. For example, auto-repair centers tend to recruit male operators and cosmetic franchises generally recruit women.

Trade sources report that most of the franchises in Thailand are operated by women, between the ages of 30-40. Of all franchisees, sixty one percent have finished undergraduate school and twenty two percent have finished graduate school. Forty five percent of franchisees have previous experience in operating a business and thirty five percent are employees who have been laid-off or have taken early retirement. Sixty seven percent of franchisees are engaged in other types of business. The most popular amount of investment to operate a franchise in Thailand is approximately \$25,000-\$75,000.

A key element for the successful development of a franchise system is the master franchisee. Good master franchisees need to know and understand clearly the franchise's concepts such as product standardization,

international thinking, systematic working, strict adherence to the operation manual, training, etc. Many franchisees in Thailand fail because they do not fully grasp the intricacies of the franchise system.

Market Entry

There are no trade barriers for foreign franchises in Thailand; however, American franchisers should be aware that what has worked in the U.S. may not work in Thailand. Market survey, which has been done by Advance Research Group in 2005, suggested that the suitable initial fee for U.S. franchises are US\$ 3,000 – US\$ 30,000.

Market Issues and Obstacles

Bangkok, the capital city with over 12 million people, is the prime area where all franchises should start off. The next locations should be major cities such as Pattaya, Phuket, Hadyai, Chiangmai, Nakorn Ratchasrima, and Khon Khen. The largest operational cost for franchises in Thailand is rental fees, which are relatively high. Another major cost for franchises is royalty fees, which franchisees have to pay to franchisers. The common royalty fees in Thailand range from 3-10% of total sales (70% of franchisees pay royalty fees of 3-5% per year. 23% pay 6-10% per year and 7% pay over 10% per year).

From a legal perspective, the franchising industry does not fall under any special legislation. Legal franchising issues are dealt with under civil and commercial laws. The drafting of franchise registration is under way.

There is a benefit for US investors, who would like to register their company under a Treaty of Amity protection. This treaty allows U.S. citizens and businesses to establish a company or branch office in Thailand. It allows American companies to own a majority of the shares and receive national treatment. That is, they may engage in business on the same basis as Thais, and are exempted from most of the restrictions on foreign investment imposed by the Foreign Business Act B.E. 2542 (1999) (<http://www.dbd.go.th/mainsite/index.php?id=791&L=1>).

Trade Events

13th Thailand Business Opportunities and Franchise 2010

February 25-28, 2010

Location at IMPAC Muang Thong

Organizer: Franchise Focus Co., Ltd.

Tel: 662-720-4821/5

Fax: 662-321-5129

Website: <http://www.franchisefocus.co.th>

5nd Thailand Franchise & Business Opportunities 2007

July 16-19, 2009

Location at Bangkok International Trade & Exhibition Center (BITEC)

Organizer: Kavin Intertrade Co.,Ltd.

Tel: 662-861-4013

Fax: 662-861-4010

Website: <http://www.thailandfranchising.com>

Resources and Key Contact

For more information about this sector contact U.S. Commercial Service Industry Specialist Pramot Wongvarnrungruang at email: pwongvar@mail.doc.gov

For More Information

The U.S. Commercial Service in Bangkok, Thailand can be contacted via e-mail at: pwongvar@mail.doc.gov ;
Phone: 662-205-5273; Fax: 662-255-2915 or visit our website: www.buyusa.gov/thailand

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