



# Uruguay: Franchising Market Overview

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This report describes the franchise market in Uruguay. Statistical data about the size of the market is not available since Uruguay does not have a Franchise Association as most countries do. The report is based on information provided by industry experts.

## Summary

The franchising sector in Uruguay is comprised of 209 franchise brands. The sectors covered include store retailing, fast food and restaurants, hotels, car services, health and beauty, business, and communications services. While the market experienced growth in the 1990s, it has slowed considerably since then and more evidently after the economic crisis of 1999-2002. In recent years the majority of the franchises established are smaller (lower impact). Uruguayan franchisors are rapidly developing and eager to export their concepts abroad. Local business chambers and associations support this initiative as they start to recognize franchising as an effective strategy for regional expansion, and according to industry experts there is a high growth potential in the local franchise industry. The Uruguayan franchise market for foreign systems could be reaching maturity.

## Market Overview

There are no official market size figures as there is no Franchising Association in Uruguay. This is mainly due to the fact that franchising can still be considered a developing concept in Uruguay and other similar business concepts are usually perceived as (or mistaken for) franchise systems.

There are approximately 209 brands in the market in sectors ranging from food and beverage to car rental services. Franchise in Uruguay include hotels, restaurants, apparel, car services, training services, printing services, and photo shops. Of these, 170 are foreign brands and 39 are Uruguayan brands. Foreign franchised networks maintain a relatively important position with 81% of the Uruguayan market, mainly in the service and retail sectors.

The main sectors of the industry are services (40%) and apparel (29%). While growth in franchising in the 1990s was significant, it slowed considerably over the past 5 years after the economic crisis the country faced in 2002. However, Uruguay's stable political and economic environment and both government and private sector support are expected to contribute to the growth of the local franchise sector.

Uruguayan business chambers support the franchising industry and predict that the significant job creation and income generation potential in this industry will create important economic and social benefits for the country. The government considers development in the sector very important and is currently offering support with trade missions going to Asia, Chile, Europe and Arab countries.

Franchising is still a not very well-known concept to Uruguayan investors and consumers, although there are already many U.S. brands present in the market. Until now the concentration of these ventures has been mainly in the services, hotel and food sectors. Although local business

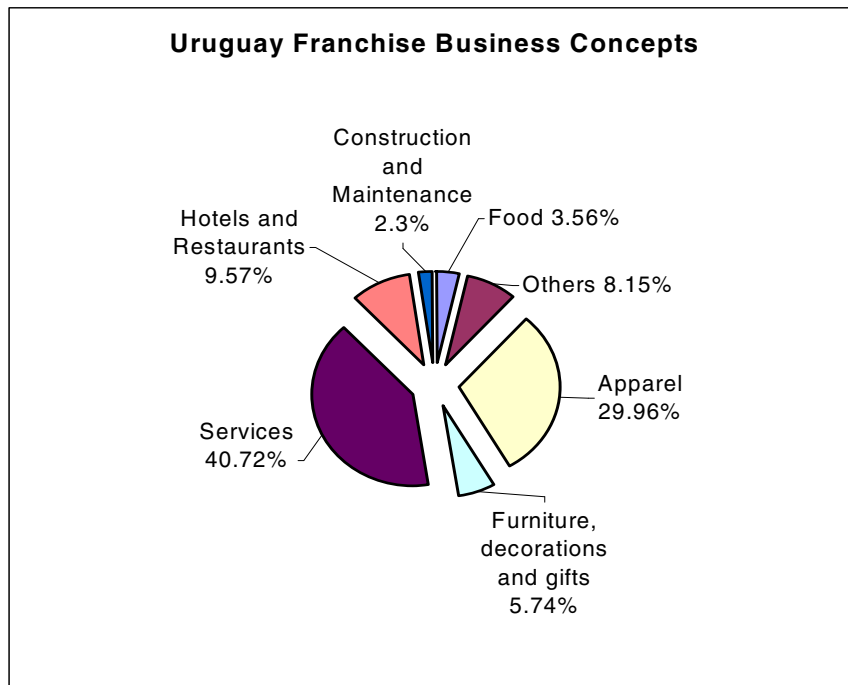
chambers and private consulting and law firms have been trying to encourage and promote the local franchising industry, it is still at an early stage of development.

### Market Data

American franchisors such as McDonald's, Burger King, and Avis have a collective market share of 28%. The largest franchise networks belong to the service domain (40%) comprised by hotels, car rental services, etc. Following the service field, the largest franchise networks are in the apparel sector (29%). In contrast with other countries, food service franchises account for a small market share in Uruguay (approximately 3.5%)

An overview of the business categories in Uruguay clearly shows a larger percentage of the Uruguayan franchising market being held by service franchisors (40%). Other business categories include the retail industry (29%), hotels and restaurants (10%) and home products and decorations (6%).

The 2005 Uruguayan franchise market breaks down as follows by number of franchised networks:



Source: 2005 Uruguayan Franchising Information Institute

Although some 90 U.S. companies have subsidiaries in Uruguay, the most common way of doing business is through agents, distributors, or franchisees. Most major importers and distributors are located in the capital city of Montevideo, where 43% of the country's total population lives; the rest of the country is made up of small population centers.

Competition comes from Uruguayan brands and foreign, non-U.S. brands (mainly Argentine). Uruguayan entrepreneurs have comfortably borrowed the pizza restaurant concept, and restaurants with very similar decoration, menu and take-away service are marketed heavily in this category.

Competitors to U.S. fast food companies are mainly Uruguayan fast food chains that serve local cuisine.

## Market Trends

Although growth in the Uruguayan franchise market has slowed, it is prone to recover in the future. The underpinnings of this turnaround will be the advantages the franchise system offers to entrepreneurs: the high rate of success (80%), the confidence instilled by a brand name, and the chance to start up a business without much prior experience. The number of local franchises that have developed and are currently expanding has been very impressive.

The construction and development of large shopping malls in Montevideo in the 1990s stimulated the establishment of franchise and franchise-type businesses such as Zara, Hush Puppies, McDonald's, and Levi's Center. The arrival of malls also brought the concept of food courts to the market.

Shopping malls are considered to be the best locations for franchises in Uruguay. Three out of the four shopping malls in the metropolitan area of Montevideo were established in the 1990s:

- Punta Carretas Shopping – Opened in 1994, with 170 stores currently.
- Portones Shopping – Inaugurated in 1994, with 134 stores.
- Tres Cruces Shopping – Located in a bus terminal station, opened in 1994, with 120 stores.
- Montevideo Shopping – The first mall built in Uruguay, opened in 1985, with 164 stores.

According to the Uruguayan Franchising Information Institute, when asked, most prospective investors have admitted that if they have the choice they would prefer to be self-employed. With the franchising failure rate over the past years of operation estimated at a comparatively low 15%, the benefits of owning a franchise are commonly known.

As in other countries, the market trends within franchising are influenced most strongly by the services sector. A 2005 survey indicates that services make up the largest franchise sector with a 40% share of the total market, followed by franchises in the apparel and accessories segment with 29%.

Some franchises within the service sector had a slow start in Uruguay due to consumer reticence in outsourcing services such as cleaning, house maintenance, and car washing.

Industry players are now more adventurous in exploring non-food based franchise concepts. There is now demand for service franchises and this sector is expected to continue growing in the future.

## Import Market

According to a 2005 survey, 19 percent of all current franchises are local franchises (originating in Uruguay). A number of prominent U.S. brands are present in Uruguay:

American Cleaning Center	Hush Puppies
Avon	Jerzees
Best Western	Lee Tools
ACE	Levis Center
American Express	Manpower
Aqualung	Martinizing
Avis	Maestro
Berlitz	Mastercard
Blockbuster Video	McDonald's
Budget Rent a Car	Metropolitan Life Insurance
Burger King	MVDK
Carlson Wagonlit Travel	Pepsi Cola
CD Warehouse	Polo Ralph Lauren
Century 21	Radisson
Choice Hotels/Days Inn	Sheraton
Citibank	Sherwin Williams
Coca-Cola	Subway
Conrad/Hilton/Harrah's	Texaco (Fast Mart)
Direct TV	The Warehouse
Dollar Rent a Car	Tommy Hilfiger
Dona Karan	Trek Bikes
Era	UPS
Hertz	Wackenhut (a group of 4 companies)
Holiday Inn	Western Union

*Source: 2006 Uruguayan Franchising Information Institute*

### Competition/Key Suppliers

The major American franchises present are in the fast food and specialty restaurant sector (McDonald's is the market leader with 22 locations), car rental (Avis, Hertz, Budget, Dollar) and hotels (Sheraton, Radisson, Hilton, Best Western).

### 2005 Market Shares

While competition is strong across the market, U.S. franchises in Uruguay represent an estimated 28% of the total Uruguayan franchise market. U.S. franchises have a dominant position among foreign franchise networks operating in Uruguay in terms of number of franchises (34% of total foreign franchises). Argentine franchises also have a significant market share among foreign companies (31%). Other significant market players are Spain and Brazil. Local businesses are also growing strongly, particularly in the apparel and food/restaurant sectors.

Current market share by country of origin is set out below:

<b>Franchises in Uruguay</b>	<b>Market Share</b>
United States	28%
Argentina	25%
Uruguay	19%
Spain	6%
Brazil	5%
Other countries	17%

*Source: Uruguayan Franchising Information Institute*

A number of local investors have established franchise-type operations in the food sector, enjoying some success through low prices and traditional meal offerings. Local experts consulted for this report predict that there will be significant innovation from local companies in the near future and that the local franchise industry has high growth potential.

In recent years, Uruguayan entrepreneurs with successful brands have adopted the franchise model to expand their business in country. As the investment fees and royalties are usually lower than from an international franchise brands, Uruguayan investors find it easier to invest in their domestic counterparts. Argentine brands are strong in the Uruguayan market due to the strong commercial and cultural ties between both countries, as well as the acceptance of brands from neighboring countries by the Uruguayan population.

The Uruguayan franchise market is currently considered very competitive. In recent years, several franchises have closed operations due to lack of promotion, inadequate location, non-competitive prices, products not suited for the market, and franchisees' lack of commitment to the products.

### **End Users**

Although Uruguay is classified as a country with a predominate middle class, it still has some income disparity. More than 85% of franchises in Uruguay are aimed at the middle and higher income group of society and the remaining 15% are aimed at middle to lower income. The franchise sector does not currently service the lower income group effectively.

### **Prospective Buyers**

Would-be franchisors come from many backgrounds: pure investors, companies wishing to extend or diversify their business activities, or individuals wishing to start their own business. Franchisees ideally should have an entrepreneurial background and have experience in managing cash flow.

Investors must consider a number of factors when deciding whether or not to buy a franchise. While many people generally have an idea of the type of business they would like to enter, it is advisable to research the market segment, attend trade shows and participate in seminars to ensure that investors' interests are a good fit with the franchisor.

Key facts to be considered by prospective investors in Uruguay:

- Market appeal, business viability and growth potential
- Investment cost
- Return on investment
- Financing options
- Franchisor background and strength
- Support offered to franchisees
- Verify that the concepts and services are suited to Uruguayan consumers

### **Market Access and Entry**

Uruguay has the following entry thresholds for new franchise businesses:

- A current lack of risk financing options for new franchise owners
- The need for effective staff training, as well as low levels of commercial knowledge and expertise of small business owners.
- Low level of knowledge about the franchise system (there are not many courses taught on franchising at local universities)
- Fear for currency fluctuations due to a local currency devaluation in 2002 against the U.S. dollar can make U.S. franchises risky for small and medium business owners.

The key to successfully establishing a franchise brand in any foreign market is locating a good master or area franchisee. A directory of potential investors, however, does not exist. Advertising or a searching via consultants might be the path to success. One source of prospective franchisees is the medium-size business community. Franchisors looking for an investor in Uruguay typically advertise in newspapers, television, radio stations, and Chambers or Business Associations.

Another potential source of franchisees is employees who have received severance packages after being downsized during or after the 2002 economic crisis or who have withdrawn savings from local banks and wish to use their previous experience in establishing a new business.

U.S. franchisors should be flexible if they want to establish a successful franchise brand in Uruguay. This requires a long-term commitment in human and financial resources and time. The franchise brand itself should be adapted or customized. This includes not only translating promotional literature, manuals and supporting material into Spanish, but also changing the necessary elements to make the franchise appropriate for the Uruguayan market.

There are no trade barriers for foreign-owned franchised companies in Uruguay. Prospective entrants are encouraged to first investigate the legal, financial and taxation implications of franchising in Uruguay.

General preparatory steps should include gathering market information, selecting the future franchise structure (master, area, or unit franchises), developing a business plan, and investigating financial options.

U.S. companies should be sure to take into account the existing differences between the U.S. and Uruguayan markets, especially when establishing the master franchise fee and contract conditions.

U.S. franchisors should understand that the price of the fee should not necessarily be based on experience in the U.S. or even in some other markets in the region such as Brazil, Chile or Argentina. They should allow a margin of flexibility in their price, such as the recovery of part of the fee in royalty arrangements, which would allow them to better adapt to specific Uruguayan market conditions such as the differences in real estate prices and start-up costs for retail businesses.

There are a number of well-established and reputable law firms in Uruguay, and it is advisable for foreign companies to be aware of the business practices in the host country. Local legal assistance is recommended in order to make sure that contracts conform to local laws.

### **Market Issues and Obstacles**

According to industry experts, the Uruguayan market for franchises is mature and competitive. Common opinion is that only the franchises that clearly bring something new to the market will generate interest in the first place. Currently existing brands may need strong advertising and promotion to differentiate themselves from local and regional competitors.

U.S. brands may not be as popular as in the United States for Uruguayan consumers. Companies should be prepared to adapt their products/services to the Uruguayan culture. Several U.S. franchises have intended to sell their licenses to Uruguay recently with no success. Companies in cosmetics, education, and fast food services did not have a successful response from potential investors, and business people contacted were not interested in researching these business proposals.

Uruguay's import climate is open and receptive to U.S. products and investments. There are no significant trade barriers or regulations that U.S. firms need to take into consideration. However, when negotiating with an investor in Uruguay to grant a master/regional franchise, it is recommended to seek legal advice from a law firm with experience in franchise practices.

There are no specific laws dealing with franchising in Uruguay. Franchises operating in Uruguay are subject to the same commercial laws as any other company doing business in the country. The relationship between the franchisor and the franchisee is established by a private agreement between the two parties. Contracts can include an arbitration clause, which is recommended to avoid the cost and delays of utilizing the courts system.

Although franchise financing is common in the United States, it is less so in Uruguay. The lack of domestic financing is a significant obstacle for local investors.

The Overseas Private Investment Corporation provides financing to a variety of small companies involved in international franchise business. OPIC may provide direct loans up to \$4 million either to the U.S. franchisor or to franchisees in eligible developing countries.

For specific information please refer to:

<http://www.opic.gov/financing/loans/franchise/index.asp>

## OPIC Franchise Loans

OPIC requires significant U.S. involvement in franchising transactions. This can be accomplished through 25% ownership by a U.S. small business in the franchisee, or significant involvement of the U.S. franchisor in the project.

“Significant” involvement means:

- Business concepts and systems employed by the franchisee were originally developed by the U.S. small-business franchisor
- A long-term franchise agreement among the U.S. franchisor, the local in-country master franchisor, and the franchisee
- Local use of the U.S. franchisor’s trademark or brand name; and
- U.S. franchisor with a long-term financial interest through receipt of franchise fees.

OPIC also expects the project to meet the general requirements outlined in the section “Financing Details” on the following website: <http://www.opic.gov/financing/details/index.asp>

## Best Prospects

According to local experts, opportunities may exist in brands related to car repair, auto service, repair shops, and seamstress services. Services geared to tourists might also develop and expand well. Tourism (such as guided tours or souvenir stores) is one of the largest sectors in Uruguay due to increasing number of visitors, and according to industry experts should be a good opportunity.

On the question of appropriate market niches for franchises, the sources consulted for this report indicated that franchises with a flexible business proposal could be successful in Uruguay. As we have indicated, the largest number of franchises is in the services and retail sectors. Reduced entry fees and low investment and royalties currently play an important role in acquiring a franchise.

Despite the fact that many established franchise systems already operate in Uruguay, there may be opportunities for U.S. franchise systems that offer flexible franchises that allow the use of local products (raw materials or parts), that allow investors to make slight additions to the products offered for others, or that might be attractive for local consumers. Franchises with new products or services or that offer flexible business conditions could take advantage of market niches.

## Trade Events

There are no trade events in Uruguay that specifically address the franchise sector. In 2006, a franchise event was held for the first time since the 1990s but showcased mostly local franchises.

## Resources and Key Contacts

OPIC: <http://www.opic.gov/financing/loans/franchise/index.asp>

OPIC was established as an agency of the U.S. government in 1971 and currently does business in over 150 countries. It is an independent U.S. government agency whose mission is to mobilize and



facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries and areas.

Please contact the Commercial Service Montevideo for franchise sector contacts, including the following:

Major franchise systems operating in Uruguay  
Trade Associations  
Law Firms  
Publications

### **Advertising**

Major newspapers in Uruguay:

El Observador: [www.mio.com.uy](http://www.mio.com.uy)  
El País: [www.elpais.com.uy](http://www.elpais.com.uy)  
Búsqueda: (email) [busqueda@busqueda.com.uy](mailto:busqueda@busqueda.com.uy)

### **For More Information**

The U.S. Commercial Service in Montevideo, Uruguay can be contacted via e-mail at: [maria.pacheco@mail.doc.gov](mailto:maria.pacheco@mail.doc.gov); Phone:(598 2) 1770-2325; Fax: (598 2) 418-8581; or visit our website: [www.buyusa.gov/uruguay/en](http://www.buyusa.gov/uruguay/en)

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