



Venezuela-Franchise Industry

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Summary

The Franchise industry started to develop in Venezuela in the late 80's and achieved major success as a business model in 1997. For over a decade the franchise sector has contributed greatly to Venezuela's economic development. Starting from about 50 franchise operations before 1997, by 2007 the number had increased to 332. The sector's annual growth (number of stores) is estimated at 25 percent. Franchise operations in Venezuela represent \$2.36 billion in sales, equaling 2.2 percent of Venezuela's non-petroleum GDP. Venezuela ranks third in Latin America in franchising, after Brazil and Mexico. American franchises dominate international franchise operations in Venezuela, of which about 50 percent are American.

In general, the franchise sector's annual growth remains stable. However, fast food chains and gastronomy continue to grow due demographic growth and the construction of new malls and shopping centers that are key locations for different types of franchises.

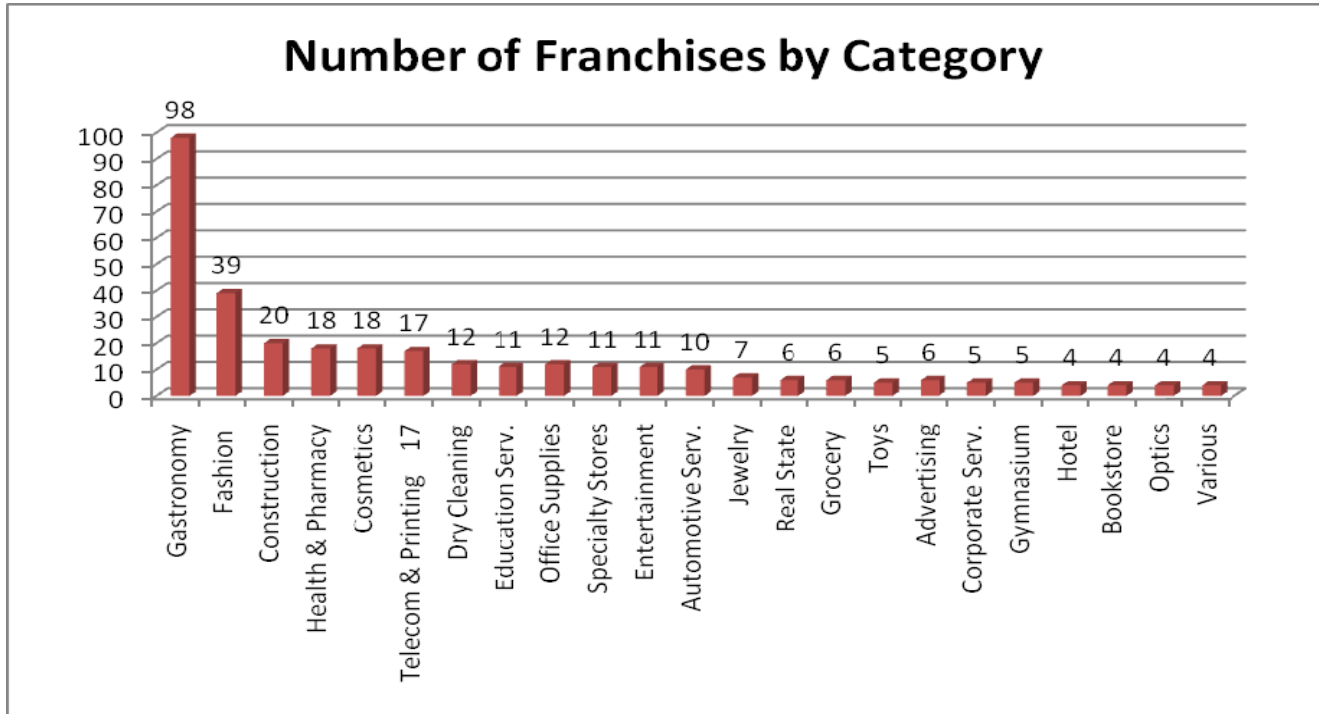
Market Demand

Since the franchise business model was introduced in Venezuela in 1997, gastronomy and fast food have been the most appealing sectors and have adapted to the market most quickly. However, other sectors have developed at a fast pace. Fashion and clothing franchises represent an important growth area in the franchise sector. Domestic fashion manufacturing began declining in 2002, due to government restrictions on foreign currency that created obstacles to general and raw material imports. Since demand in this sector is high, the decline in the domestic industry caused growth in many fashion and clothing franchise operations.

The average initial capital investment in Venezuela to begin a franchise operation is US\$76,000, but in some cases (real state franchises, entertainment centers, toy stores and bookstores) it is possible to initiate an operation with less than US\$50,000. The most expensive type of franchise in Venezuela is in hotels, with an initial investment of US\$5,000,000. However, in the past 5 years demand in the hotel sector has seen a major increase. Today, according to the Ministry of People's Power for Tourism, Venezuela has a deficit of 6,000 rooms in the most important cities, i.e., Caracas, Maracaibo and Barquisimeto.

Other types of franchise operations are growing in number. Gastronomy, fast food and quick serve restaurants are very important operations, in terms of fastest market adaptation and have an estimate initial capital investment between US\$50,000 and US\$150,000. The average initial investment for American franchises is US\$178, 000, represents 41 percent higher than for other international franchises. Since several services and products are already

offered by domestic franchises, future American investors are highly recommended to conduct a market survey to determine what the specific competition is offering.



Market Data

In Venezuela, American franchises comprise the highest number of international franchise operations in many different categories, representing 61 percent of total international franchise operations and 1,466 stores. The second highest representation is Spanish franchises with 16.5 percent, followed by Colombian franchises (5.8 percent), and Canadian (4.2 percent).

Venezuela ranks third among Latin American franchise markets, as determined by annual percentage increase in franchise stores. In food chains, there has been a steady increase since 2004. Of 332 franchise operations, 98 are fast food, with 1,158 stores.

Venezuelan franchise operations represent 2.2% of GDP, BF 5.1 billion or US\$2.36 billion annually.

Direct Employment: 66,000
 Indirect Employment: 145,000
 Annual Percentage Increase:
 2002: 11%
 2003: 6%
 2004: 14%
 2005: 15%



Best Prospects

While several European and Venezuelan franchises compete with American ones, U.S. Franchises and trademarks are highly regarded in the Venezuelan market. They stand for good quality, consistency, and excellent service. Furthermore, a great advantage the American franchisers have on market penetration is the familiarity and brand loyalty Venezuelans have for American brands for many years.

For 2009 it is projected that franchise operations will rise 14 percent. Thirty-six percent are expected to be international franchise and 17 percent are expected to be American.

Sources:
Profranquicias-Venezuelan Chamber of Franchises
Front Consulting

Key Suppliers

The franchise sector is broad and covers many areas and categories, it is difficult to list key suppliers for each category. However, according to the Venezuelan Chamber of Franchises, Profranquicias, there is one major key supplier in the franchise sector most of the categories have in common. The key supplier is software, particularly administrative programs. Most major domestic and international franchises, in numerous categories require administrative software programs.

Market Issues & Obstacles

American investors must be informed of the restrictions for currency exchange control implemented in February 2003 by the Venezuelan Government. Restrictions are regulated by the “Comisión de Administración de Divisas” (CADIVI), where Venezuelan importers are required to submit detailed information regarding specific import transactions. CADIVI states the exporter, must provide supporting documentation when requested.

The ruling determines all transactions regarding the Franchise sector is “Providencia # 056”, effective in August 2004 and replacing “Providencia #029”. Franchise royalty fees are processed in foreign currency. Venezuelan law states all import transactions in foreign currency must be processed through CADIVI. For detailed information visit <http://cadivi.gov.ve>

Trade Events

Feria de las Franquicias, 2008
Centro Sambil, Caracas-Venezuela

Resources & Contacts

Profranquicias-Cámara Venezolana de Franquicias

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www.profranquicias.com

FrontConsulting

www.frontconsulting.com

Comisión de Administración de Divisas

<http://cadivi.gov.ve/>

For More Information

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