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The attractiveness of the Italian market: The International franchisor's point of view

October 2011

In collaboration with:



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Introduction

Franchising in Italy is a sales channel with very significant numbers, though still little known to insiders. In 2010 Italy counted 883 brands, which together make up more than 54,000 sales points, over 186,000 people employed and a turnover exceeding 22 billion Euros. Italy is the fourth country, after France, Germany and Spain, when looking at the number of franchise brands. The presence of foreign master franchisors in Italy adds up to 6.8% while the franchisee only networks with headquarters in foreign countries represents 3.7% (source: Report Assofranchising Italia 2010).

Starting from the idea that attracting foreign investments is a key element for economic growth, the contribution that this research wants to give to the study of the franchise phenomenon is to address the issue of the attractiveness of our domestic market for global franchise operators and provide useful indications on how best to approach our country, highlighting peculiarities, barriers and especially opportunities.

The most significant outcome of this survey is that the peculiarities of our territory, our culture and the entrepreneurial fabric of which we are made, make the Italian market complex and fertile at the same time, which requires operators to be careful, have the ability to adapt the commercial formula and have a solid organisational structure.

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Research objectives

This research has 3 main objectives:

- analyze the degree of attractiveness of the Italian market for foreign franchisors;
- identify the factors that influence foreign franchisors in the process of developing franchise networks in Italy;
- propose concrete actions aimed at stimulating foreign investment in our country with better results.

Research methodology and analysed sample

We carried out a Delphi analysis on a panel of foreign franchisors present in Italy and added interviews with major international franchisors not yet present in our country, conducted in collaboration with PwC and UbiFrance Italie.

The Delphi focused on the traditional “delaying factors of the Italian development” to verify the potential impact on the entry of potential franchisors in our market.

The research looks at non Italian franchisors in the following sectors:

- catering (fast food, pizza, ice-cream);
- clothing;
- wholesale retailing (food);
- services;
- furniture & accessories.

Profile of the respondents:

	Food	Non food	Total
European Franchisors	8%	38%	46%
Outside Europe Franchisors*	39%	15%	54%
Total	47%	53%	100%

* Asia, Australia and US

Profile of the franchisors in the sample – average size of the network:

Average PoS Italy	Average PoS abroad	Average new PoS 2011 Italy	Average new PoS 2012 Italy
220	8.330	9	10

The research focused on the following factors, potentially able to differentiate the startup and the development of the franchise network in Italy, compared to other European countries:

- infrastructure and logistics system;
- bureaucracy, administration and territory;
- access to credit and startup costs;
- entrepreneurial characteristics;
- market and competition.

Factors influencing the development of franchising in Italy

1. Market and competition

According to the companies interviewed, franchising can be a way to develop and grow entrepreneurial models, especially for those family owned. However, we need to contextualise the concept to the Italian market and franchisors have to make significant investments in the start-up phase to select, train and assist individual entrepreneurs during the maturation process. Where this adaptation and this effort to grow allow the implementation of appropriate formulas for the Italian market, which must evolve towards better quality and less improvised solutions, the prospects of developing a network are high.

On the topic of market and competition we have found different opinions depending on the sector, which are summarised below.

In the clothing sector the high fragmentation of the trade system makes it easier for new operators to enter the market; the franchising formula, compared to direct outlets, looks very consistent with the potential development of the market, even if in a phase of crisis and downturn, which has delayed many openings.

The franchisors in the catering sector that are already present in our country show that the Italian market is very attractive and the franchising formula allows you to select and engage good contractors, with the capacity to finance themselves; however it is common for local entrepreneurs to manage the point of sales themselves. This allows them to avoid paying the royalties to the franchisor.

Food operators not present in Italy perceive the competition as being too high for their products (ice cream, pizza) compared to other countries with different food traditions. They feel that there are better opportunities for commercial development outside Italy.

For the wholesale retail sector, the franchise formula is consistent with the characteristics of the sector and has allowed a significant expansion of the networks already established here.

In the services sector, operators indicate that the Italian market is behind and therefore often not ready to adopt more structured business models; therefore franchisors have to make a bigger effort, especially for some innovative services (such as printer cartridges regeneration as well as business advertising and communication services) and for other services (for example car repair) for which the market is characterised by a many small local operators.

Finally, the furniture sector considers the Italian market as one of the most interesting ones, with a great opportunity for expansion. The non-specialised dealer is disappearing, but the characteristics of the entrepreneurs make them suitable for the franchise formula.

Another advantage observed by the operators is that the formula from other European countries doesn't need to be adapted, as required for some other sectors.

2. Culture, safety, society

The internationalisation of the Italian cultural system requires franchisors to obtain the expertise and professionalism to deal with the limited degree of linguistic knowledge and the behaviour of potential franchisees. This is even more important in some areas of the country, such as the southern regions. The operators highlight that it is fundamental to get the brand known, especially when it is a new one.

The division Nord-South seems of little relevance considering the differences in local consumer behaviours, for which no logical explanation can be found.

In addition, foreign residents seem more aware of international brands and are more often ask for affiliation, while Italian entrepreneurs are less sensitive to foreign brands.

The limited knowledge of foreign languages of affiliated and potential franchisees is another factor differentiating Italy from other countries, especially in southern Italy, which makes it more difficult to make contacts.

Finally, there is a strong cultural prejudice when it comes to professional roles and gender (men-women), age, language, culture. Knowing how to speak the language of the people in the different geographical areas (East, West, North, South) represent another element to consider when you are or are planning to set-up a franchise network in Italy.

3. Institutional system

This topic does not seem to particularly affect Italy compared to other European countries, nor the franchise in a different measure to other forms of economic development. There is however a greater administrative complexity and inconsistency of regulatory provisions compared to those in force in other European countries. The franchisors surveyed show that the regulatory system at regional and local level is extremely complex, which requires that the franchisor develops specific knowledge on this topic. However, Italy is lagging behind Europe in terms of adapting certain regulations and procedures on the adjustment of the conditions relating to the sales and transportation of goods.

For the catering sector the research highlights the importance of knowing the Italian labour law; standard points of sales must be adapted to meet the requirements of the Italian law.

4. Credit, work and the real estate market

Facilitating access to credit for franchisees through agreements with banks seems to be an important factor to attract franchisees; for this reason many franchisors provide their partners access to agreements made with international banks that already know and support their franchise formula in other countries.

The Italian financial system does not distinguish franchising from other commercial formulas and, consequently, access to funds for entrepreneurs takes a long time.

The operators remark that startup credit is not only a problem in Italy but throughout Europe and they hope that industry associations could facilitate the relationship between franchisees and the financial system.

In sectors where high initial investments are required, such as catering, it is important that entrepreneurs can rely on personal funds. In Italy we note that household savings are generally available, which allow for the selection of good local partners.

The size of the family of the potential affiliated entrepreneur and the availability of financial resources deriving from personal or family savings are aspects that can facilitate the startup of the networks.

With regards to the cost of labour, it should be noted that in Italy this is on average higher than in other countries, and relations with trade unions are important.

No particular annotation is made by the surveyed operators concerning the Italian real estate market, whose costs are aligned with the rest of Europe.

5. Infrastructure

Operators unanimously agree that delays due to the Italian infrastructure and logistics costs affect the franchise to the same extent that it affects other types of entrepreneurial activities, especially when it concerns the opportunity of developing homogenous networks. However, the delay created by the infrastructure is not a barrier to enter the market, but more a limitation to the convenience of opening points of sales in some areas.

Operators prefer to proceed in the market growing through “clustering”, focusing on provincial capitals rather than on small towns that are difficult to reach.

Please note that in particular the delay of the Italian logistics systems makes it more difficult to achieve economic results consistent with those of other countries.

In addition, broadband delays affect the adoption of communication techniques and specific innovative promotions of the franchise formula, while the delay in the development of communication and transportation infrastructures conditions the convenience of developing the networks in some parts of Italy.

Franchisors used to operating in developing countries, especially those franchisors of American origin, are less concerned about shortcomings in the Italian infrastructure.

6. Other factors

Given the peculiarities and complexities of the Italian market, the surveyed operators reckon that it is fundamental to have a registered office in Italy as well as a stable structure that knows the regulatory, administrative and territorial system and closely follows the development of the franchise network.

Looking at the Industry Associations, operators declare that they expect support in the startup and in the recruitment of franchisees, as well as more commitment both in spreading the franchising culture and informing / training local entrepreneurs on the characteristics and benefits of the formula.

In addition there is a remarkable demand for legal support that helps foreign operators to understand the complexity of Italian regulation.

Synthesis of the results

From the interviews we have undertaken some statements emerged on which there is a certain degree of convergence and agreement, in spite of the differences of the sectors (standard products or services versus personalised products or services) which may have influenced the perception /convictions of the different stakeholders.

A first peculiarity of our country is the **entrepreneurial fabric**. Italian entrepreneurs, which are potential franchisees, are more aligned to the family owned business and less evolved than in other European countries in terms of organizational and managerial skills; in addition, the limited knowledge of languages and, with the necessary distinction between different areas of the country (North-South, but also East-West), the presence – still – of a culture with little recognition of the equal roles between men and women, prejudices related to age and gender.

This means that in Italy franchising can certainly represent an opportunity for development and growth for the Italian family owned entrepreneurship models, but for the success of a network it is crucial that the franchisor dedicates time and resources (facilities) to follow the franchisee during the evolution of managerial skills and the development of critical, sector specific, competences.

In this context the master franchising model facilitates the development of a network, but presents a high risk in case the master franchisees faces difficulties or a crisis.

Another interesting outcome is that **foreigners resident in Italy are often more willing than Italians to adhere to a non-Italian franchise** chain. This is especially true for the lesser-known brands and marginal for some large international brands that claim to receive strong and immediate interests. In either case a strong communication effort by the franchisors appears fundamental to get the brand known and recognized, also through directly managed points of sales.

The potential of the reference market is another fundamental element for the decision to invest and enter the Italian market, but the **business formula must often be adapted to the Italian context**, with particular reference to the labour related regulation and, for some sector, consumer habits.

With regards to the territorial issue, the respondents highlight the importance that the franchisor matures, also through a structure dedicated to the Italian market, the **knowledge of the territory** in which they are going to develop their affiliates. There aren't only differences between North and South, but also between cities and regions (there is no single Italy, but there are many Italies).

We can add that Italian geographical configuration and the **delays in infrastructural connections** make it convenient to develop the network in some parts of the country, while making it unattractive elsewhere, especially in the South.

Arriving to the **regulatory aspects** Italy is characterized, compared to the rest of Europe, by a high complexity of reference regulations – national and local – and the extreme difficulties in managing the relationships with the Public Administration officials; therefore it is essential that from the startup phase the franchisor immediately develops significant experience in dealing with the Italian administrative system.

Even though both the **credit system** and the system for entrepreneur incentives, are not yet, for different reason, tailored to the needs of franchisors and franchisees (real guarantees, surety bonds, long waiting times, etc.), the franchisors do not consider the limited availability of financial resources for SMEs a barrier for entering our country.

Another outcome is that for large international franchisors, used to operating in every country in the world, issues related to security, crime, bureaucracy and infrastructural and logistic and the configuration of urban centers are not considered of significant importance.

From the interviews conducted with operators not yet present in Italy emerges that the average income per capita, consumption habits, the potential development of the reference market and the competition, are factors affecting the profitability of the investment and, as such, are the focus of the research performed for entering the Italian market.

Final recommendations

Indications for foreign Franchisors

- a) In general the Italian entrepreneurial fabric is particularly suitable for the development of franchising network, also considering the availability of financial resources, often coming from family savings.
- b) In many respects the small Italian entrepreneur is not ready to take on, as such, a business formula, as was already tried out in other countries. The potential affiliated entrepreneur has to be followed during a formative and informative course, even if basic, that allows him not only to become fully aware of the details of the franchise agreement, but also to learn the language, take on technical skills as well as the use of organizational systems that are essential for properly managing the affiliated model.
- c) The system “Italy” appears more articulated in terms of sociocultural aspects, regulation and bureaucracy compared to the US or other European markets. There are many ‘Italies’ often very different from each other. It follows that the concept underlying the basis of a franchising formula cannot be replicated without adapting to Italian regulatory, cultural and behavioural specificities, which can vary from zone to zone.
- d) The knowledge of the brand by potential new franchisees represents a must, and when it concerns international brands, these can be promoted, in an initial phase, through developing owned points of sales.
- e) The simple presentation, perhaps during a fair, of a business formula is not in itself an element of attraction and success for the development of a commercial network. The successful cases show that they were supported by an Italian ‘structure’ that took the effort to get to know the market and the different territories in which to focus commercial and logistic activities and often involved a financial partner (bank) who knows the basic formula, to facilitate access to credit for potential franchisees.
- f) Considering the high specificity of the different territories, opting for a master franchisee that is connected to and known by the territory represent a way through which the process of network development can be accelerated.

Indications for Industry Associations

- a) The communication and promotion of operation mechanisms that form the base of the franchising agreement are still a priority for the Italian entrepreneurs.
- b) Facilitation of access to credit for the franchisees, through arrangements with banking institutions, can facilitate the affiliation process, especially when this is reinforced by knowledge of the business models offered by the franchisor.
- c) The training of franchisees, even basic (think of foreign languages), is an element of great support for the evolution process from family and natural business forms to more sophisticated and structured management models.

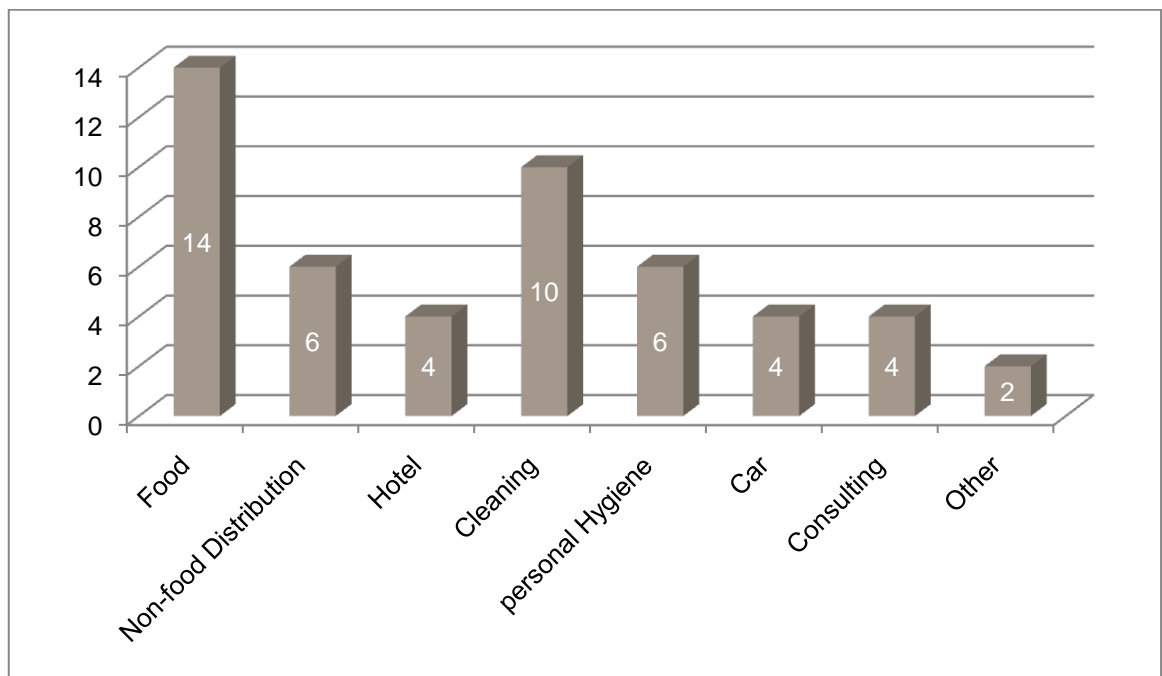
- d) Overcoming the excessive organizational articulation, resulting from a plurality of representative associations for entrepreneurs, would allow the foreign franchisor to identify more clearly the possible business partners to refer to in order to acquire more regulatory and commercial information.

Appendix 1: Franchising data and analysis

1 The first 50 top franchisors in the world and the Italian market

From the available data (see graph 1.1 and 1.2) we note that in the first 50 top global franchisors, classified on the basis of a complex system of economic and performance indicators, 14 (28%) operate in the food sector and 10 (20%) in the cleaning services sector.

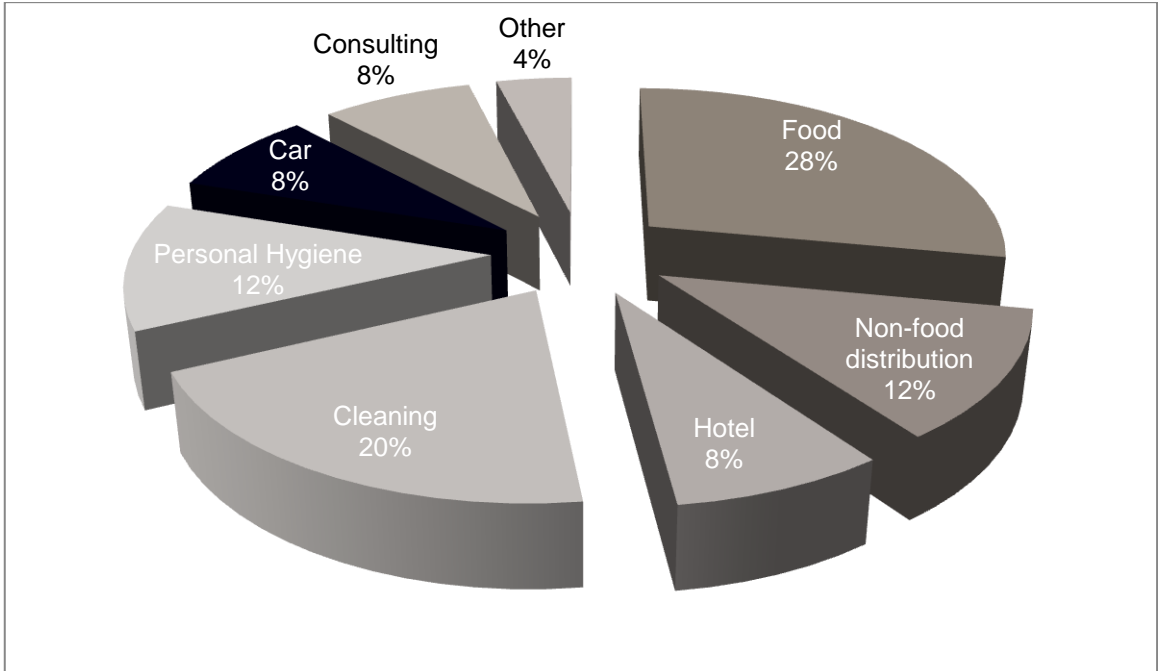
1.1 Sub-division by category of the top 50 global franchising networks – 2011 (Classified Entrepreneur's 32nd Annual Franchise 500®)



Source: Elaboration by Cesit of Entrepreneur data

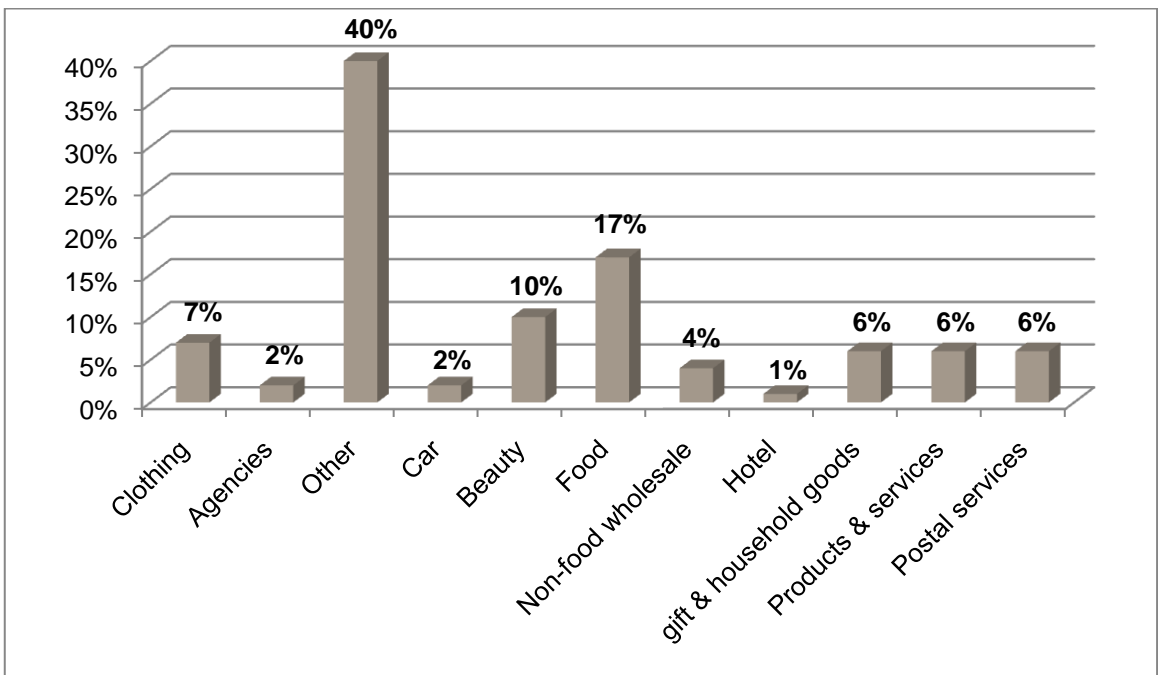
In the food sector, as well as in the segment of fast food catering, the main franchisors are operating in sectors such as ice cream, pizza or national specialties from North America. They are not always consistent with the Italian food catering market.

1.2 Percentage of the top 50 franchise networks by category – 2011



Source: Elaboration by Cesit of Entrepreneur data

1.3 Percentage of number of franchise networks in Italy - 2010



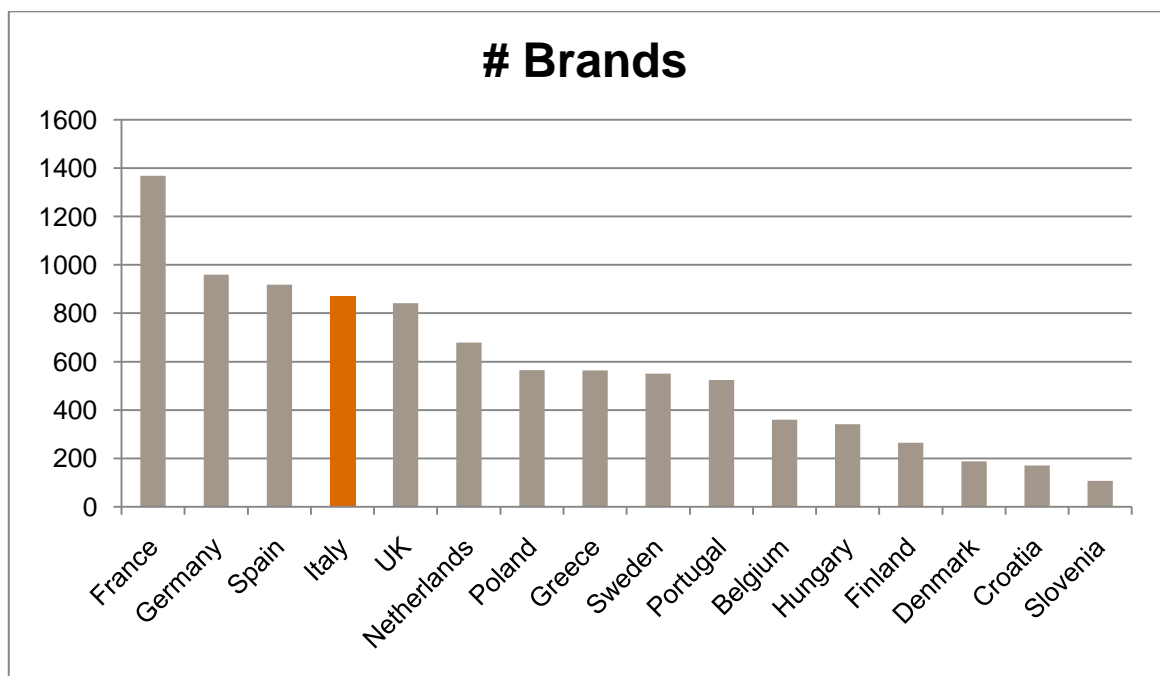
Source: Elaboration by Cesit of the 2010 data of Assofranchising

In reference to other markets, there is a non-alignment with the most relevant sectors in Italy (data Report 2010 Assofranchising). More precisely, In Italy, the hospitality and cleaning services sectors appear less “permeable” for the development of franchise affiliations (see graph 1.3).

2 Presence of foreign franchisors in the Italian market

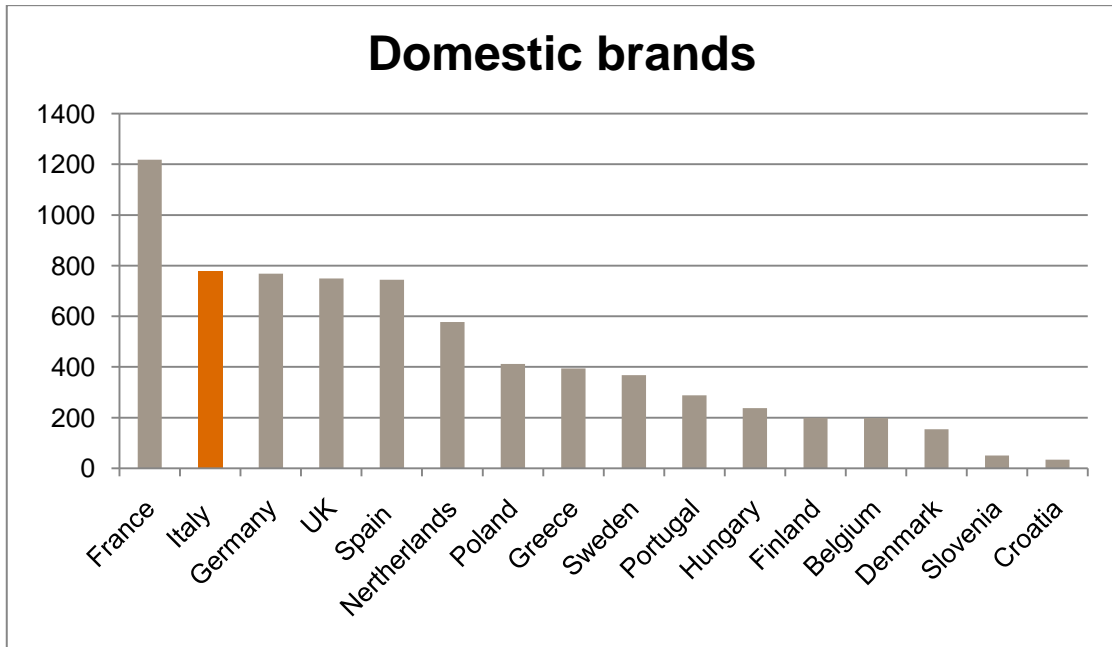
Italy is fourth in Europe when looking at the number of franchise brands per country (see graph 2.1). The Italian brands are 782 (see graph 2.2) counting for about 11% of the total European brands (see graph 2.3); in absolute value of Franchising Italy is overtaken only by France.

2.1 Number of franchise brands present in Europe – 2009



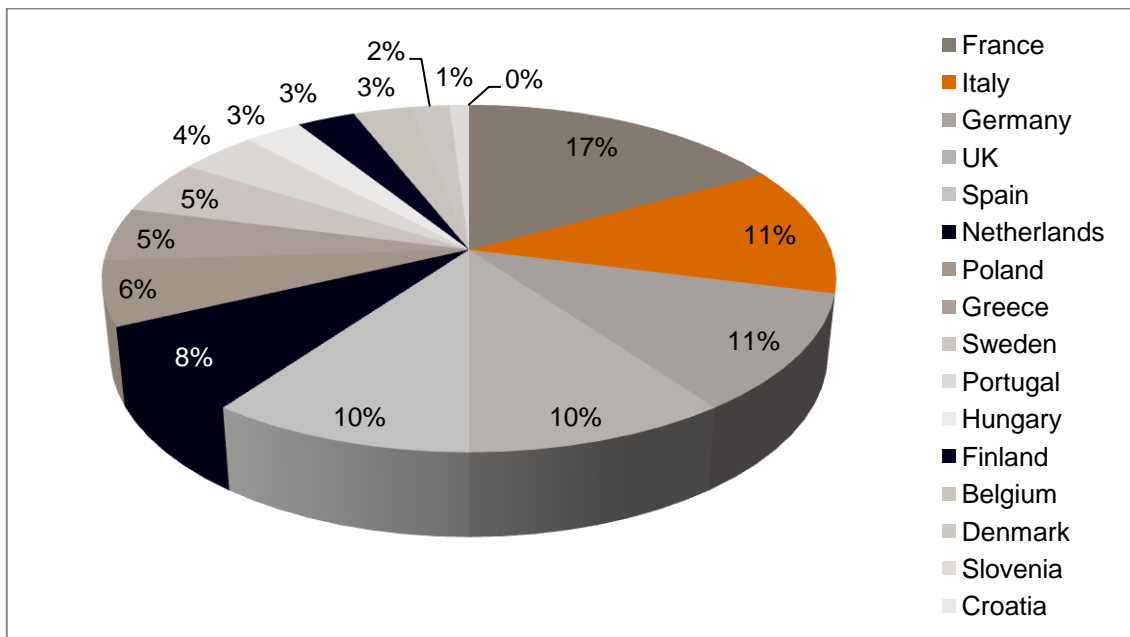
Source: European Franchise Federation 2010 (national data as of 2009)

2.2 Franchise Brands by country – 2009



Source: European Franchise Federation 2010 (national data as of 2009)

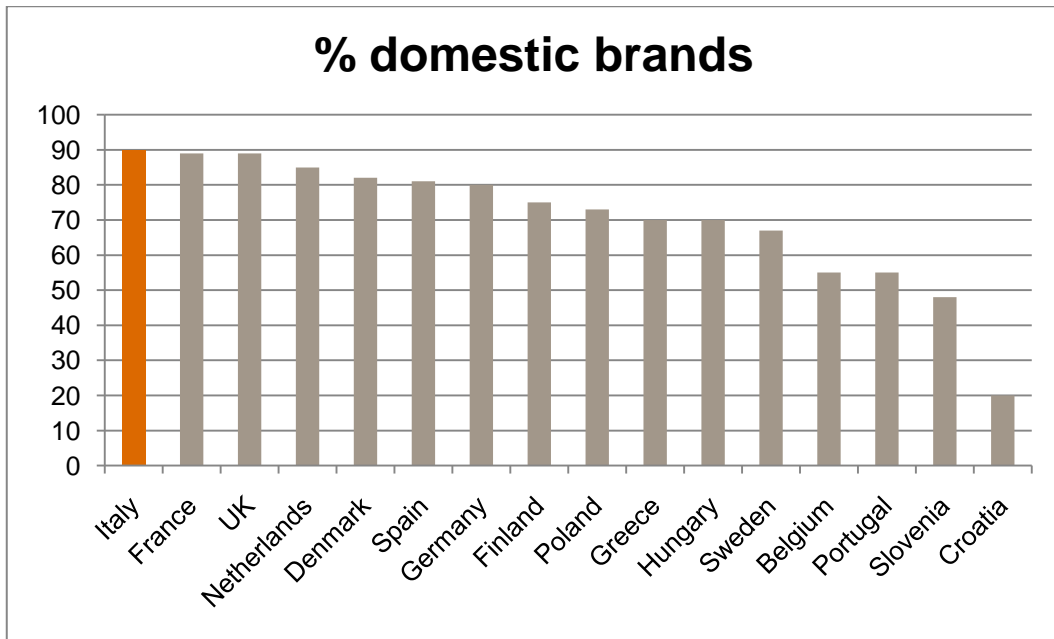
2.3 Percentage of franchise brands of individual countries compared to the European total – 2009.



Source: European Franchise Federation 2010 (national data as of 2009)

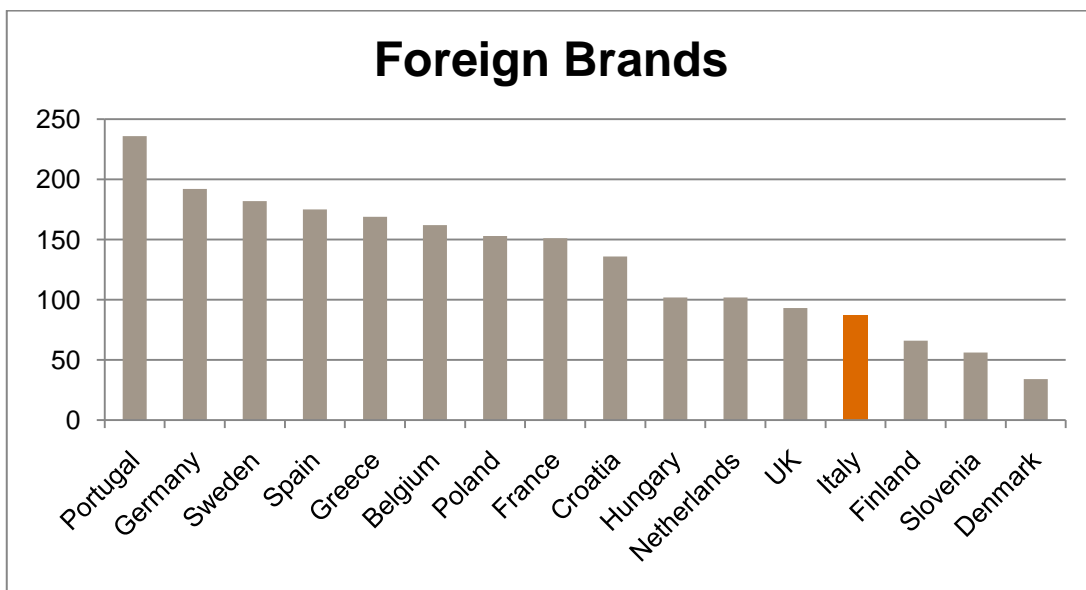
The available data shows that, in Italy, the presence of foreign networks that operate only with franchisees and have the head quarter abroad is equal to about 4% (35 franchisors). Domestic brand share, excluding foreign master franchisors, is about 90% (see graph 2.4) while foreign brands (including the masters) are about 10% (in absolute value 87, see graphic 2.5), even if since 2010 they have been increasing.

2.4 Percentage of domestic brands in the main European countries - 2009



Source: Elaboration by Cesit of EFF data, September 2010

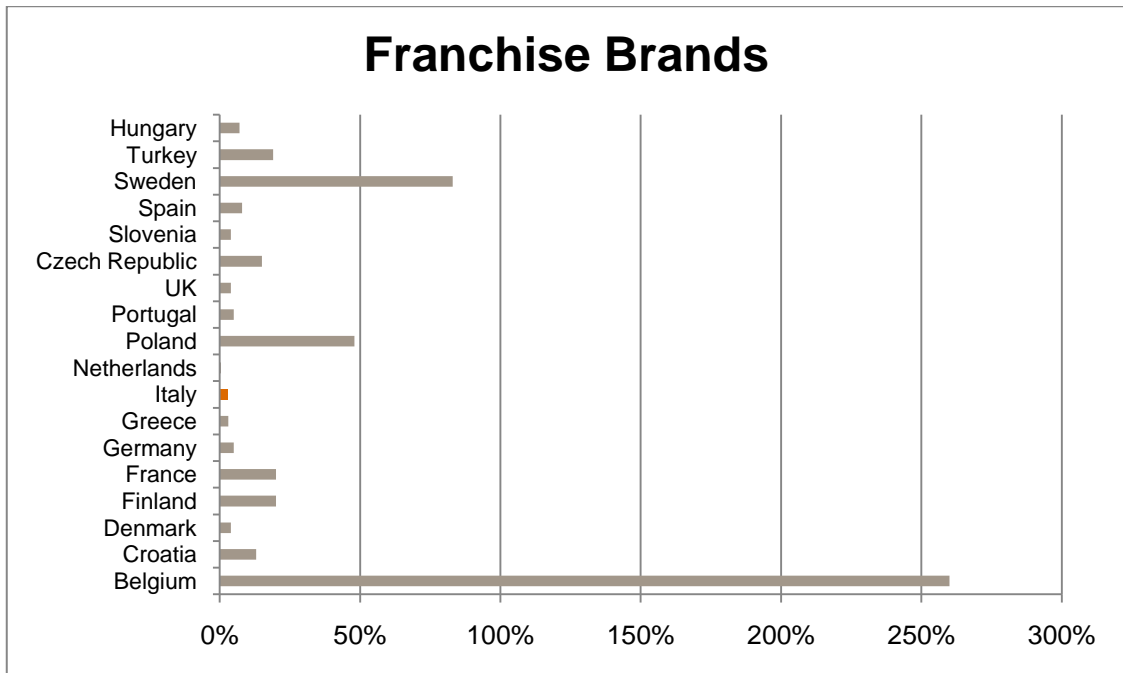
2.4 Foreign brands present in the Italian market - 2009



Source: European Franchise Federation 2010 (national data as of 2009)

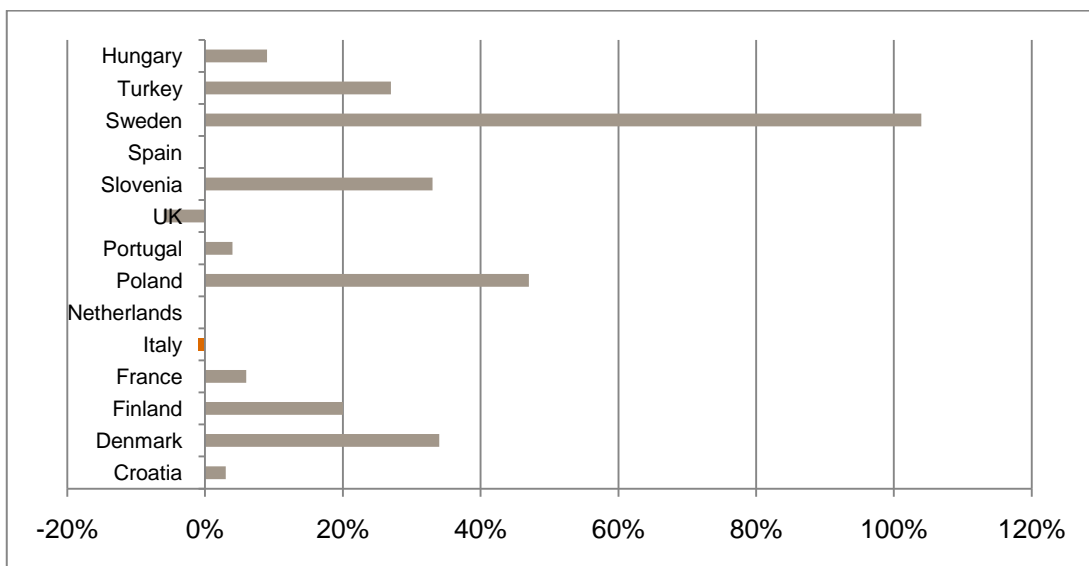
This situation is essentially aligned with France, Great Britain, United Kingdom, the Netherlands, and Spain; lower percentages of foreign brands are registered in Germany, Scandinavia and Eastern Europe. Instead, the development rate of the brand and the representation in Italy is more contained than in other European countries (graph 2.6 and 2.7).

2.5 Percentage of change of franchise brands in major European countries 2007-2009



Source: Elaboration by Cesit of EFF data, September 2010

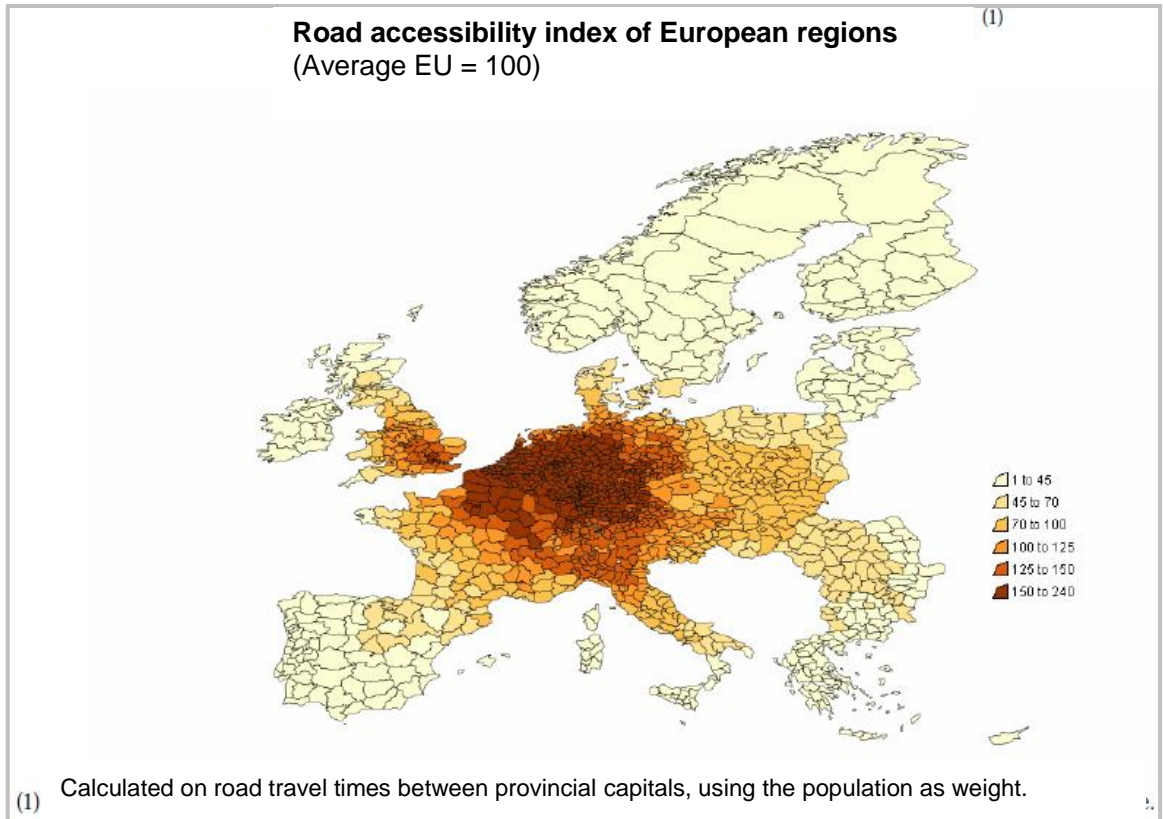
2.6 Percentage of change of the workforce in the sector in Major European countries 2007-2009



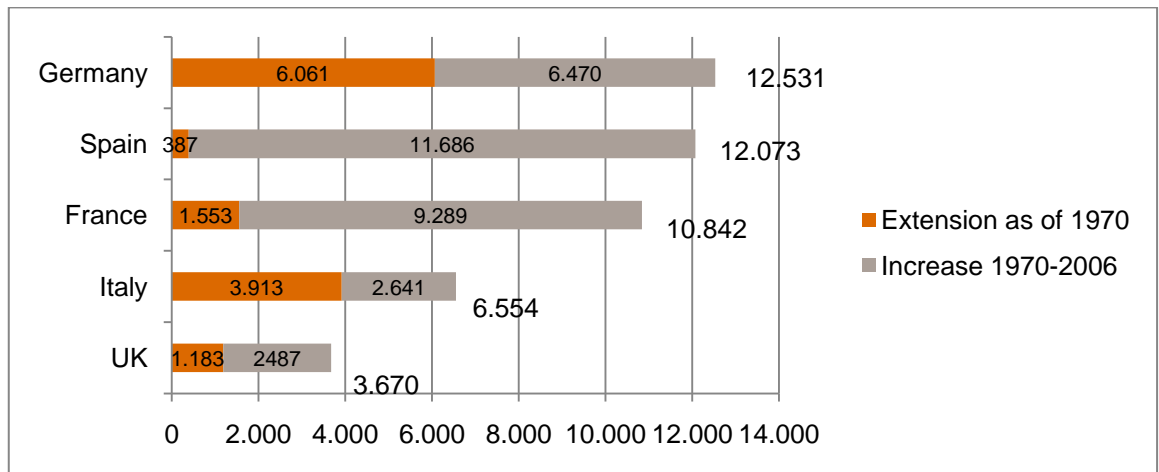
Source: Elaboration by Cesit of EFF data, September 2010

Appendix 2: Data on the infrastructure, credit, bureaucracy and entrepreneurialism in Italy

1 The infrastructural delay: less highways than in Europe

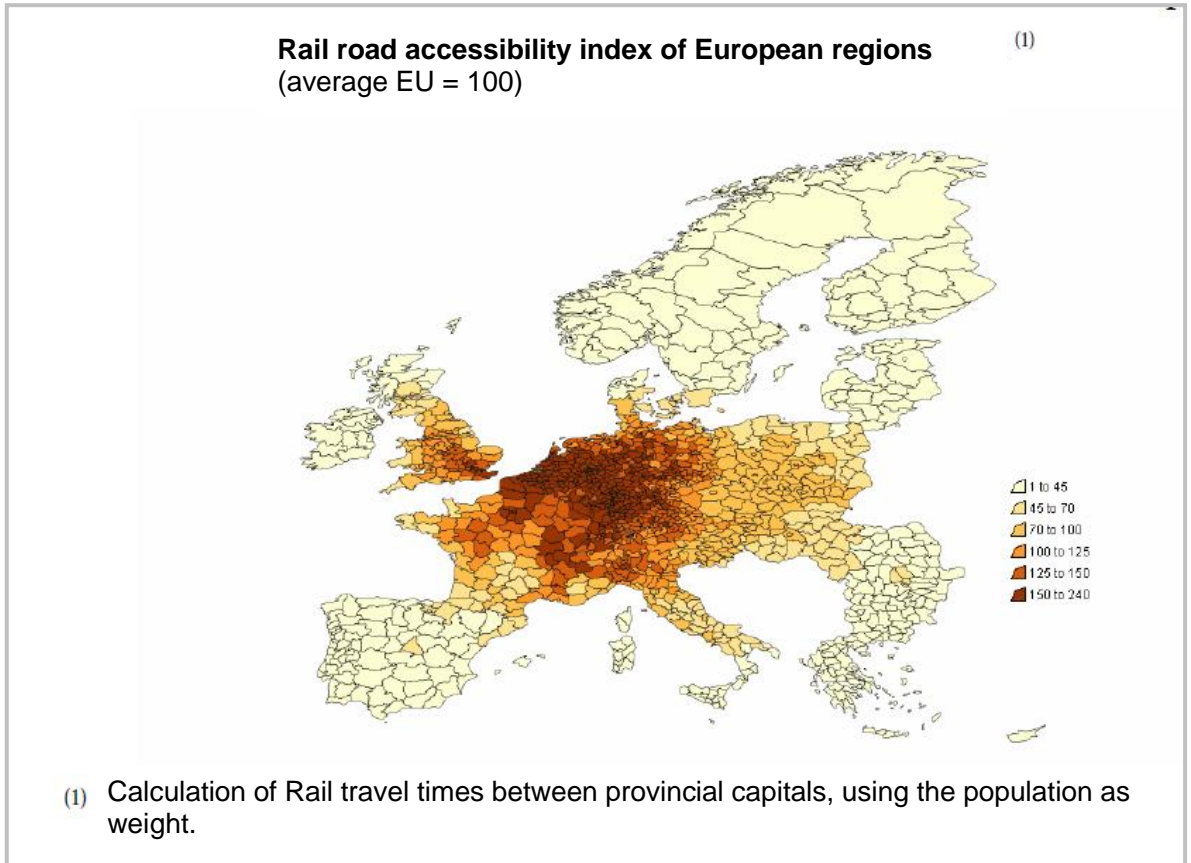


Source: Banca d'Italia 2011, ANCE 2010



Source: Banca d'Italia 2011, ANCE 2010

2. The infrastructural delay: less railroads than in Europe



Source: Banca d'Italia 2011, ANCE 2010



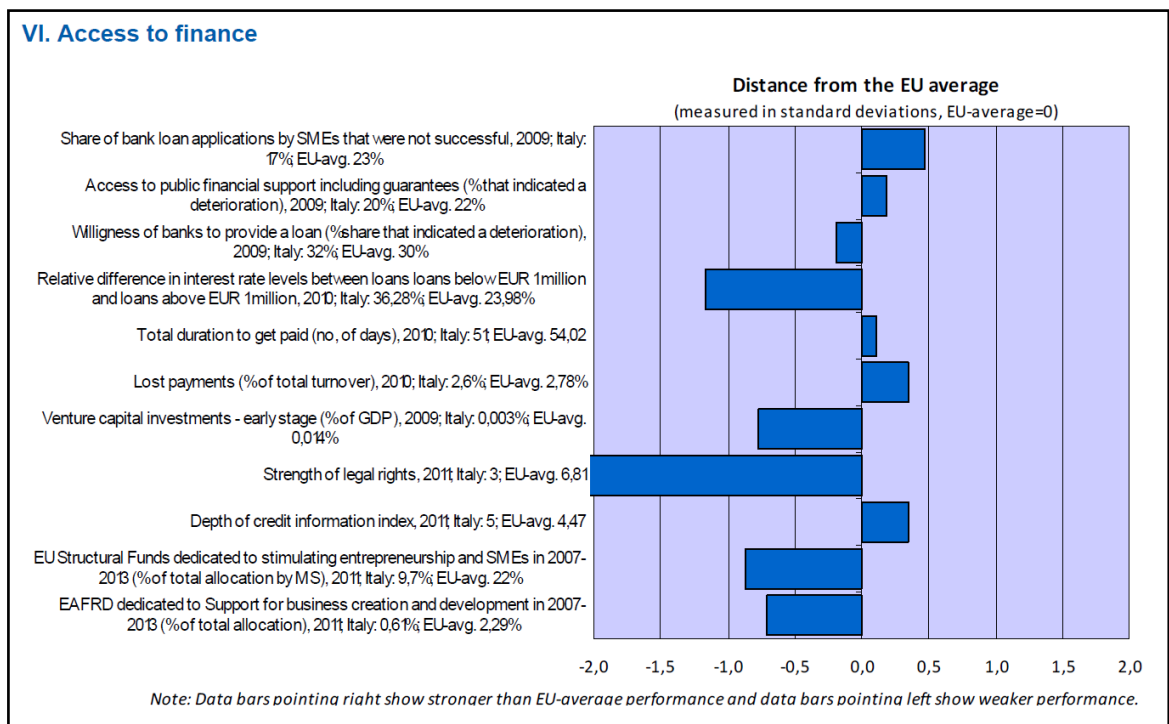
Source: Banca d'Italia 2011, ANCE 2010

3. The infrastructural delay: the competitiveness of the logistic system

Logistic Performance Index (2010): Positioning in the world wide ranking										
Type	Germany	France	Spain	Belgium	The Netherlands	United Kingdom	United States	Greece	Italy	
Total LPI Index	1	17	25	9	4	8	15	54	22	
Customs	3	17	22	9	4	11	15	68	23	
Infrastructure (2)	1	14	25	12	2	16	7	45	20	
Distribution efficiency & cost (3)	9	28	48	26	11	8	36	73	37	
Logistic skills (4)	4	12	24	5	3	9	11	65	18	
Distribution traceability	4	14	16	2	9	7	5	43	21	
Time reliability (5)	3	9	21	12	6	8	16	67	24	

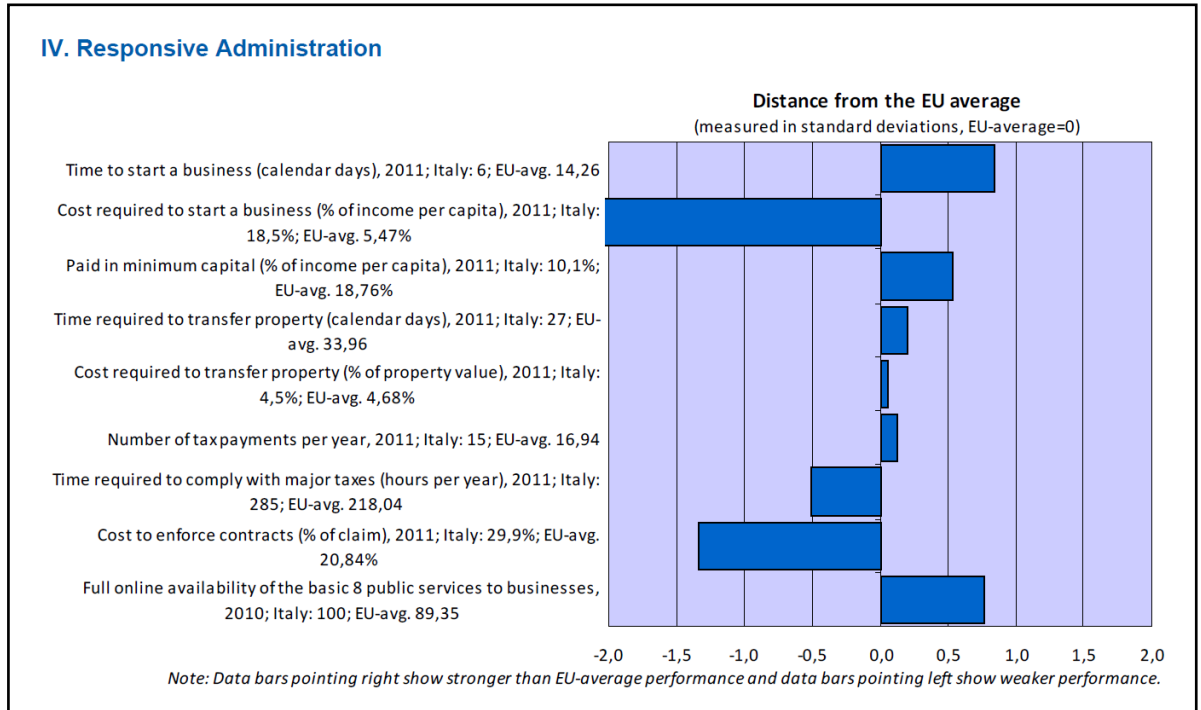
Source: World Bank (2010)
 (1) the rank refers to the positioning of the country within the sample of the 155 countries examined – (2) quality of the infrastructure of transportation and ICT – (3) possibility to organize competitive distributions from the cost point of view - (4) competence and quality of the delivery of logistic services – (5) frequency with which the distributions are received by the addressee within the time originally foreseen.

4. Access to credit for SMEs



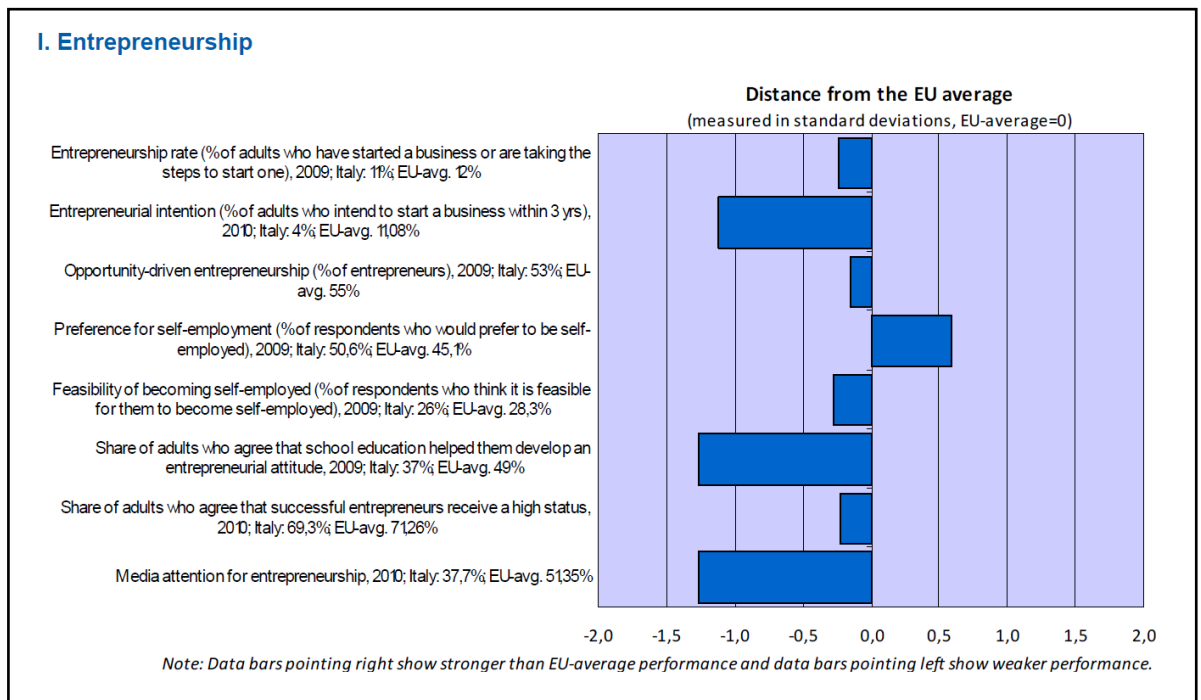
Source: Report on European SMEs 2011 (European Community)

5. Bureaucracy and relations with public administration offices



Source: Report on European SMEs 2011 (European Community)

6. Entrepreneurialism in Italy



Source: Report on European SMEs 2011 (European Community)

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