



Chile: Franchise Industry

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Summary

There are over 113 franchise businesses operating in Chile nationwide, with an average annual growth rate of 15%. This industry sector provides direct employment for some 35,000 people and accounts for annual sales of approximately \$210 million.

Market Demand

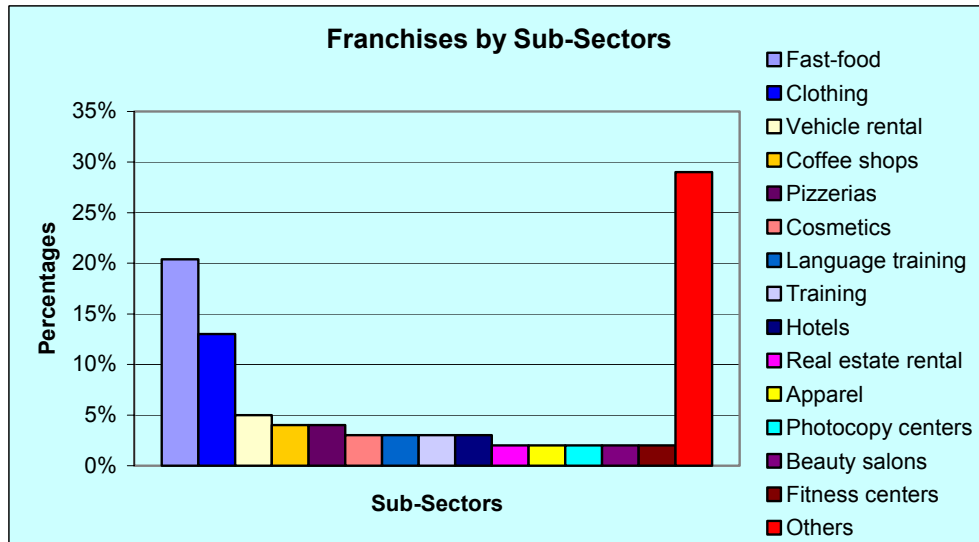
- The first franchise in Chile opened in 1985 and the market has actively increased since 1995. In 2005, this industry reached \$210 million and is expected to grow 15% in 2006.
- Franchise companies operating in Chile are subject to local trade laws. Royalties and fees have a withholding tax that ranges from 15% to 35%. Sales within Chile are subject to a value-added tax (VAT or "IVA") of 19%, and products imported from foreign countries are also subject to VAT. There are additional tariffs to imported products such as software, certain agriculture products, and luxury goods.
- Of the 113 franchise businesses operating in Chile, 48% are from the United States, 23% are Chilean, and the remaining 29% are from other countries.
- During this sector's early development the majority of franchises were of foreign origin. It then shifted to locally-developed franchises, but is now slowly being reversed. Lesser local franchises are being developed, and more foreign franchises are dominating the market.
- Since trademark/brand stockpiling is rather common in Chile, U.S. companies are encouraged to register their trademarks as soon as possible should they consider Chile as a potential market.

U.S. Franchises Operating in Chile include:

Applebee's	Bennigan's	Berlitz	Blockbuster
Burger King	Chuck E. Cheese	Coverall	Curves
Domino's Pizza	Dunkin Donuts	TGI Friday	Gymboree
H2O	Hampton Inns	Holiday Inn Express	Hooters
Kentucky Fried Chicken	Manpower	McDonald's	Petland
Pivot Point	Pizza Hut	Powerhouse Gym	Remax
Rockford	Ruby Tuesday	Sbarro	Sir Speedy
Subway	Taco Bell	The Crepe Café	Worldwide Express

Source: Mercado de las Franquicias de Chile 2005

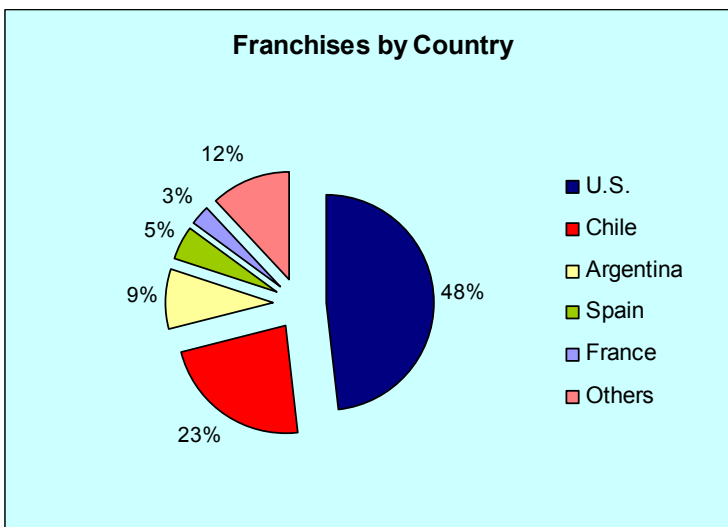
Market Data



Source: Mercado de las Franquicias de Chile 2005

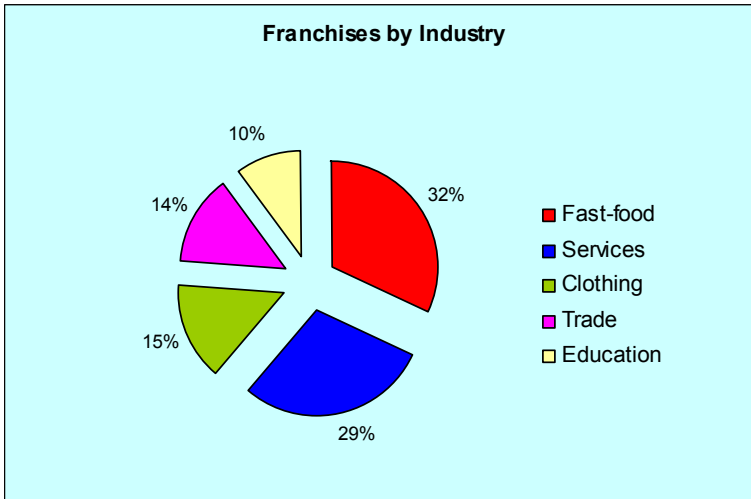
In Chile, the sub-sectors with higher franchise businesses are fast food/restaurants – which include pizzerias and coffee shops – with 29% of the market, followed by clothing with 12.9%, and vehicle rental with 5.4%.

The sizeable presence of fast food/restaurant franchises is partially due to the proliferation of shopping malls with recreational areas that include food courts and movie theaters.



Source: Mercado de las Franquicias de Chile 2005

U.S. dominance in Chile’s franchise sector is due to the level of development and expertise that these companies have reached in the United States. As a result, its replication in this market is considered attractive. Also, their massive marketing campaigns, which have positioned their brands in the international markets, have made U.S. trademarks well-known and highly regarded in Chile stirring additional interest among local consumers and potential investors.



Source: Mercado de las Franquicias de Chile 2005

In Chile, the franchise industry is concentrated in five principal sectors: fast-food/restaurant, services, trade, clothing, and education. The fast-food/restaurant and service sectors represent over 61% of the franchise market.

Best Prospects

The construction and/or remodeling of shopping malls has brought to Chile plenty of fast-food chains; therefore, CS Santiago believes that most of the untapped franchising opportunities may be found in the following areas:

- Full-service restaurants
- Nightclubs
- Amusement parks
- Automotive services
- IT services
- Cosmetics
- Repair and rental services
- Cleaning (home and industrial)
- Clothes
- Fitness centers
- Real estate business
- Education
- Childcare
- Training services
- Hotels/motels

Key Suppliers

- U.S. franchise operations make up 48% of the total franchise market.
- Franchising is the fifth largest source of U.S. exports and investment in Chile.
- U.S. businesses are well considered in Chile; therefore, U.S. franchisors have good opportunities to exploit this market.

Prospective Buyers

Chilean businesspeople interested in investing in the franchise industry are generally found among: a) professionals and executives looking to pursue potential business opportunities in addition to their current activities, b) relatively young businesspeople wishing to invest in their own business by means of a severance pay, and c) young entrepreneurs that wish to start their own business or create a partnership through a loan from a financial institution. Nevertheless, potential local investors are difficult to find; therefore, CS Santiago recommends additional market entry strategies, detailed in the Market Entry section of this report.

Market Entry

U.S. franchising companies wishing to enter the Chilean market through CS Santiago's fee-for-service program may either contact our office directly or contact the nearest U.S. Export Assistance Center of the U.S. Department of Commerce and request a Gold Key Service. In addition to this service, CS Santiago recommends advertising new opportunities in the local newspapers in order to reach out to the whole country. Valuable paid advertisement venues include newspapers and the Santiago Chamber of Commerce magazine. Additionally, CS Santiago includes information regarding franchise opportunities in its website.

Market Issues and Obstacles

Chile has very few barriers to imports and/or investment allowing, in most cases, foreign firms to enjoy the same protections, and operate under the same conditions as those for local firms. As a result of the U.S. – Chile Free Trade Agreement, in place since January 2004, 90% of U.S. imported products enter Chile duty free and the remaining 10% is to be phased out by 2015.

The overall success of the franchise sector led some prosperous Chilean companies to franchise their own concepts with mixed results. Although Chile has an ideal geography for sub-franchising, the basic benefits of franchising are not well-understood outside the capital, Santiago. Consequently, companies that offer a master franchise with the prospect of sub-franchising most or all of their units, must be aware that sub-franchising outside the city of Santiago remains a challenge.

Trade Events

The last version of ExpoFranquicias was held in Santiago, in April 2005, but had very limited success. Therefore, the recently founded Chilean Franchise Chamber is planning a new version of this international trade show in conjunction with Expo Retail for 2007. It is held every two years and its last version had an impressive number of exhibitors, as well as visitors. Additional information regarding this planned event will be made available as soon as the Chilean Franchise Chamber has reached an agreement with the organizers of Expo Retail.

Resource & Key Contacts

Cámara de Franquicias de Chile (Chilean Franchise Chamber), www.camaradefranquicias.cl
Francorp Chile S.A., www.francorp.cl
Cámara de Comercio de Santiago (Santiago Chamber of Commerce), www.ccs.cl

For more information

The U.S. Commercial Service in Santiago, Chile, may be contacted via e-mail at: veronica.pinto@mail.doc.gov Phone: (56-2) 330-3369; Fax: (56-2) 330-3172 or visit our website: www.buyusa.gov/chile

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