Summary

With a thriving consumer population of over 300 million, coupled with sustained economic growth, India is an exciting destination for American franchisors. The Indian franchise industry offers excellent opportunities for new U.S. brands/franchisors. Increasingly, franchising is becoming a successful business model for foreign, especially American companies, planning to enter the Indian market for the first time.

The $3.3 billion franchise market in India has the potential to grow to $20 billion by 2020, with an impressive growth rate of approximately 30% per year. Presently, there are 1,200 franchisors in India, of which 25% are of international origin, with U.S. companies the most prevalent.

The Indian franchise operations have started expanding beyond the metropolitan centers into rural India. The top prospects for franchising include: food, education, retail, beauty salons/cosmetics, business services, apparel and travel/tourism. This report will provide a generic overview of the Indian franchise industry and opportunities.

Market Demand

India is a rapidly changing country. The country is witnessing an unprecedented consumption boom. While the rest of the world still faces the impact of the economic slowdown, India is growing at approximately 8% per year, the second fastest growing economy in the world. This rapidly growing economy has led to a population of over 300-350 million middle-income Indians with high disposable incomes. This group continues to fuel the consumption demand in India. The many factors that contribute to increasing consumption include the emergence of a young urban elite population with increasing disposable income, changing lifestyles, mounting aspirations, penetration of satellite TV, increasing appetite for western goods, international exposure, options for quality retail space, and greater product choice and availability. The greater demand for goods in India is in turn generating a greater demand for franchises.

The Indian population of one billion is growing at a rate of 2.5 percent per year. Of that total, about 300-350 million have the demand for, and the discretionary income to purchase, premium products and services. Many in the growing "middle income" segment look for international quality products and this trend is likely to continue for the next five years and beyond sustaining the demand growth.

Market Data

The franchise market in India has the potential to grow to $20 billion by 2020. Franchising in India is growing at an impressive rate of approximately 30% per year. Presently, there are 1,200 franchisors in India, of which 25% are of international origin, with U.S. companies the most prevalent.

Best Prospects
Approximately 1200 franchisors, 40,000 franchisees spread across the country are successfully operating in diversified industry sectors including healthcare/beauty (3%), IT enabled services (14%), IT education (40%), Education-preparatory and fashion (10%), professional services (11%), retailing (9%), Entertainment (4%), F&B (2%), Cyber Cafes/Kiosks (2%), and miscellaneous services (5%).

Key Suppliers

Several foreign companies with strong brand names have established a presence in India through franchising. In the hospitality and food service industries, this has been the preferred method for starting operations in India. Some international companies that operate through franchises include: Hertz, Avis and Budget car rental; Radisson, Best Western and Quality Inn hotels; Kentucky Fried Chicken, Domino’s Pizza, TGI Friday’s, Ruby Tuesday, Subway, and Baskin Robbins for food. Pizza Hut and Domino’s Pizza have opened many outlets under the franchise model. Similarly, Indian companies with strong brand recognition are also using the franchising route to expand business volume. Examples of such Indian companies are: Thomas Cook, Cox & Kings, Kuoni, SOTC, Raj Travels for travel and tourism, Euro Kids, Kidzee, Apple for pre-school, Café Coffee Day for food and beverage and Apollo Hospitals for healthcare.

Prospective Franchisees

Local investors are very receptive to franchises from the United States. Technical knowhow, 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 Indian investors. It is important that U.S. Franchisors choose the best franchisee not only for strong financial support, but also their capability to manage the system. Good master franchisee needs to know and understand clearly the franchise’s concepts such as product standardization, international outlook, standard operation manual, and training.

Market Entry

With the rapid growth of franchising in India, U.S. franchisors could appoint a master franchisee for the country, and with the assistance of the master franchisee, develop a franchise network. Alternately, the U.S. franchisor could open a subsidiary in the country and develop the franchise network. The master franchisee will not only be responsible for developing and adapting the foreign prototype to a new and different market in which it has limited
recognition, but will also be responsible for implementing the expansion plan of the franchisor for the entire country. Given the large size of the country, U.S. franchisors are advised to appoint a regional master franchisee to develop the network. Furthermore, it is vital to conduct thorough financial and legal due diligence or feasibility report on the potential partner, which includes a check on the owners, directors, financial status, and its availability to invest and expand the business.

Market Issues & Obstacles

The biggest challenge for the franchise industry in India is that the Government has not recognized it as a small business facilitator, unlike the United States. However, on December 16, 2009, the Government of India announced a liberalized policy, which removed the cap on the royalty payment and government approvals. Prior to this change, businesses were required to obtain approval for payments in excess of $2 million on one time fees and 5% on ongoing fees. With these hurdles cleared, more U.S. franchises will seek opportunities in India.

Challenges:

Regional Approach to combat Indian diversity: Local companies prefer to appoint master licensees on a regional basis (north, south, east and west), as India is a large geographical landmass with a diverse mix of population.

Expensive Real Estate: In the metropolitan centers of India, retail space continues to be extremely expensive.

Resistance on Fees & Royalty Payments: Indian potential franchisees believe that the U.S. franchise/royalty payments are high.

Lack of Legal Framework: India does not have a comprehensive franchise law to regulate this industry sector. In fact, the Indian franchise venture needs to follow several laws to comply with the legal requirements in the country. The applicability of multiple laws to a franchise transaction poses problems of complexities and ambiguities in agreements and is also time consuming for U.S. companies to decipher.

Despite these market impediments or constraints, U.S. franchisors thrive in India with strong prospects in various sectors for the future.

Trade Events

To identify and recognize best practices in the business of franchising in India, the Franchise Association of India (FAI), and the MFV are organizing an exhibition cum seminar for the first time named India Franchise Expo in New Delhi at Hyatt Regency, New Delhi. Please contact the show organizers for additional details.

www.mfvexpo.com/eblast/2011/India/Franchising_in_India.html

Resources & Contacts

Franchising Association of India: http://www.fai.co.in/
Franchise Business: http://www.franchisebusiness.in
Indian Brand Equity Foundation: www.ibef.org
Reserve bank of India: http://www.rbi.org.in
Government of India Ministry of Finance: http://finmin.nic.in/
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Comments and Suggestions: We welcome your comments and suggestions regarding this market research. You can e-mail us your comments/suggestions to: Customer.Care@trade.gov. Please include the name of the applicable market research in your e-mail. We greatly appreciate your feedback.

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