



The Franchising Market in the United Kingdom 2014

Market Overview

	2011	2012	2013 (est)	2014 (est)
Total Market Size	21,440,000	21,920,000	22,410,000	22,859,000
Number of Franchise Systems	929	930	932	936

Source: The British Franchise Association (BFA)

Unit: USD thousands

According to the 2013 British Franchise Industry report (2012 data), the franchising industry contributed \$21.9 billion to the UK economy. This equates to just under 1% of GDP. In 2012, there were 930 franchise systems in the UK (up by one franchise from 2011), with 37,300 franchised units (down 3% from 38,400 units in 2011). The largest 9 systems operate just under 7,000 units between them. There are an estimated 22,400 franchisees in total, with one in four running multiple units. UK franchisees employ 594,000 staff. Just under one third of franchises operating in the UK are members of the British Franchise Association (BFA).

Franchising operates across nearly all sectors and is highly diversified. There are very few operators of multiple franchise brands that could be potential targets for new systems. Thus, it is essential for an incoming franchise to thoroughly research and to fully understand its specific industry sector. The UK market is mature, sophisticated, and in many areas saturated. To succeed here, a franchise must offer a concept that is truly unique and different from what is already available to a highly discerning customer base. Although the UK economy is starting to grow again, financial losses in the recession have resulted in lenders and investors taking a measured and cautious approach to new business ventures. Franchisors seeking to establish operations quickly, within months, will struggle in the UK as it can take years to find a suitable partner. New franchises must prove themselves in this market. A record of success in the U.S., Asia, and the Middle East does not necessarily predict success in the European market. It is important to note that the vast majority (82%) of UK franchise systems are UK-owned. Only 9% of UK franchises (80 systems) operate as a Master Licensee of another company that owns the system.

Sub-Sector Best Prospects

When considering the opportunities in the UK market, it is helpful to divide franchising systems into two main categories based on where they will trade: Retail or Service. Retail franchises are hallmarked by their need for significant physical trading premises while Service franchises have a limited (if any) need for a physical location. The most common examples of Retail franchises include fast/fast casual food, restaurants, bars/pubs, and hotels. Examples of Service franchises include education, management, employment/training, professional and IT services, and domiciliary care.

As they entail physical property with fixtures and fittings, Retail franchises require substantially more investment and thus carry higher risk. Property rents are high, and London property prices can be prohibitively so. Successful routes to market for incoming U.S. franchise systems include pilot locations, joint ventures, regional chain takeover, and partnership/colocation with an existing UK franchise. UK lenders will not fund a system that is unproven in the UK market. To secure funding (typically 50%), lenders will require solid business plans, based on the results of a UK pilot or pilots. Forecasts for 1, 3, and 5 years are needed, and substantial support from the U.S. corporate parent must be demonstrated. It is important to note that the market in London is substantially different from other UK cities. A pilot's performance in London may not accurately indicate trends for the entire country. If a Retail franchise intends to trade outside of London, the pilot location(s) selected should reflect this.

Service franchises, which have a limited physical property requirement, have a substantially lower cost of initial investment than Retail franchises. As such, Service franchises offer a higher probability of success and more opportunity for U.S. franchise systems. When seeking a UK master licensee, systems with a specific, targetable candidate profile will have a better chance of success. U.S. franchises that have advertised in the UK national press have also experienced higher rates of success, as they have reached a larger potential candidate audience. Due to the high cost of recruiting unit franchisees, high cost master franchise licenses are likely to fail. The conversion rate for unit inquiries to investment ranges from 1 in 50 to 1 in 200. To support and encourage master franchisees, an emerging trend in the market is to spread the initial franchise fee over several years or as each unit is recruited. High up-front costs will deter investors and will negatively impact a master franchisee's ability to enter the market and grow the brand.

Opportunities

Entering and succeeding in the UK franchise market is a challenge. However, companies that demonstrate a commitment to the market and perform adequate research into their industry will most likely do well here. Making the appropriate approach may reap highly rewarding results, as UK success is often used as a springboard into the rest of Europe.

UK Industry Events

Several franchising industry events run throughout the UK, throughout the calendar year. For more information, please get in touch with Chrystal Denys (see Contact Details section).

Trade Association

British Franchise Association www.thebfa.org

Contact Details

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