

## **SEARCHING FOR NEW MARKETS? LOOK SOUTH**

By Charles Weeks

It seems odd to admit, that in the regional strategic targeting for brand expansion, the "Americas" south-of-the-border was more often than not a third place objective in the 90s. This was mandated in deference to the results orientation and to the performance demanded by company strategies, and due to the immediacy of the demand for U.S. franchise brands in Asia and the Middle East. This does not mean the region was in any way ignored, but was rather recognized as a 'longer haul' proposition. It is a highly "brand conscious" region where franchise winners are snapped up by major players, and competing franchises struggle to gain the attention and confidence of other discriminating heavy-weight investors.

Looking over the past decade and the thwarted New Millennium takeoff for a massive migration of U.S. brands making their way south into our neighboring sphere of the world, it can be noted that the financial and economic structural inadequacies and unstable political environments in a good number of the countries of Central and South America have been unavoidably blameful culprits. The vestiges of import protectionism, some of the monopolistic tendencies in the private sector, and a plethora of more basic business obstacles, have all been factors affecting overall U.S. brand receptivity and macro-economic development in general. Moreover, private investment has ebbed and flowed like the tides in many of the region's markets for many good reasons.

### **THE "GOOD NEWS"**

In this light it is truly remarkable that franchising has not only flourished in much of the region in the 90s, but is becoming a growing dominant force in the retailing and restaurant sectors of the major markets of Argentina, Brazil, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Panama and Venezuela, and with Colombia, Ecuador and Peru not far behind. The growth of service franchises in the region is following to a lesser degree the longstanding trend of the United States. Some countries' governments like El Salvador's are earmarking the promotion of franchising as a vehicle for overall economic growth and the development of the small business sector. These would seem to be very good reasons to give some further consideration to this region today, and part of that consideration must take into account some recent and highly-impactful tendencies:

1. Globalization is at work and structural changes are already underway to improve productivity and the allocation of human and natural resources regionally to meet the demands of the world market. It will be a struggle where the benefits of franchising will not go unnoticed.
2. Free trade agreements emanating from meetings such as the recent Miami Conference of 31 countries will create more competitive environments across the entire region, and new, more competitive business models and tactics will become an imperative for economic survival of many companies. The franchise model suits this environment ideally.
3. Transparency and the overall reduction of corruption are seriously pursued objectives in a majority of the countries of the region. This bodes well for a new

generation of publicly committed governments and for business in general. The newly-elected president in Guatemala owes his success in part to a gray cloud of suspicion hanging over rival candidates and their parties' associations. Changes of this nature will bring investment back into the Central and South America, a welcome trend for U.S. franchise brands.

4. The competitiveness and efficacy of the region's ability to successfully nurture franchising as a business model for growth is exemplified by Brazil's fourth place position among the top franchising countries of the world, and the vibrant and competitive franchise brands undertaking the conquest of the U.S. market, including Camperio, Taco Tote, Don Pan, Oxxo Care Cleaners and many more. The list of U.S. franchisors already entrenched in the region is far too long to mention, but includes all of the top tier as well as some new and more embryonic brands.

#### THE MAJOR MARKETS TO WATCH

**Mexico:** The United States' closest neighbor will continue to represent a key opportunity for U.S. franchisors. The International Franchise Fair held in March in Mexico City competes as one of the top trade shows in all of the Americas, and offers an array of advantages for franchisors wishing to just "get their toe in the water," or for a quick market survey.

**Chile:** At the far end of South America it takes commitment to include as a targeted country, but the continued growth of the economy and "franchise friendly" business environment makes it a "must" to study on any franchisor's target list.

**Brazil:** The country is on a rebound and boasts a June trade show that competes favorably with Mexico's. This is a major world player with a strong culture all of its own that must be factored into any strategic planning, but is well worth the challenges.

**Argentina:** Another country that is also making an economic comeback, and although a tad early, it should be taken into consideration seriously.

**Central America:** The United States' "other neighbor" should be viewed as a group of countries with distinct differences in currency and business cultures, and as such an entry point must be decided with Costa Rica, Guatemala and El Salvador topping the list. If an investor-candidate has the horsepower, capital and infrastructure, to cover the entire region, this may represent the best option for a franchise in the long run, as a kind of "market basket" balance may be achieved. Panama is a stand-alone market that is small but hot and fertile for future growth.

**The Caribbean:** The easy picks are the Dominican Republic and Trinidad-Tobago where franchising has a good track record and recent growth.

One Last Point

Someone coined the travel motto-"wherever you go, there you are." This may be heartily applied to development commitments in the region. Those who approach the franchising of their brands "down-South" with long-term vision and invincible commitment will reap great benefits. Potential partners do not possess a trader mentality for the most part, and will match a franchisor's loyalty for brand.

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