REPORT 2010

FRANCHISING IN ITALY

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survey data and thematic maps analysis : BRD consult-G&O

1. Premise

The ninth report conducted by FIF-Confesercenti is focused on the main topics of "Franchising in Italy" and examine the Italian Franchise market . BRD Consulting provided the survey data analysis.

This research surveys a large representative sample of Italian franchisors about multiple unit franchising, concerning 25% of the active brands. The data are also represented by professional-quality thematic maps of the national franchised stores province-wide.

2. Franchising Directory in Italy

The table below highlights the current franchise issues in Italy in 2009. The franchised stores are 49,259, the retail employers are 157,629 and the total turnover is exceeding 20 billion of euros.

The franchised units are 922. The geographical distribution of the franchised outlets is represented in Tables 2 and 3.

Usually, trade marks have its registered office in Northern Italy. Lombardia, Lazio and Veneto regions include the largest number of franchisors. (TABLE 2). Among the southern regions, the largest number of brands is in the Campania region.

The Franchise system revealed an encouraging trend especially in the services sector (45%) followed by Non-Food (43%) and FOOD(12%) (Table 3).

TABLE 1. FRANCHISING IN ITALY

Franchisor (*)	922
Franchisee (*)	49,259
Employees (*)	157 629
Turnover (*)	20.6 (mld. euro)

Source: FIF - Confesercenti - BRD Consulting data

(*) In the absence of official records, the following information are the results of the survey analysis of Italian franchising companies.

TABLE 2 - FRANCHISORS BY REGION

Decreasing order:

Lombardia	28.7%
Lazio	13.7%
Veneto	10.2%
Emilia Romagna	8.8%
Campania	7.2%
Piemonte - Valle D'Aosta	6.0%
Toscana	5.4%
Puglia	3.6%
Abruzzo	2.9%
Sicilia	2.8%
Liguria	2.2%
Friuli Venezia Giulia	2.2%
Marche	1.6%
Umbria	1.2%
Trentino Alto Adige	1.1%
Sardegna	1.1%
Calabria	1.0%
Molise	0.1%
Basilicata	0.1%
North	60 %
Centre	22 %
South and Islands	18 %
Italy	100 %

Source: FIF - Confesercenti - data BRD Consulting

The following tables - Tables 3 and 4 – show the existing franchise sectors in Italy. Fast food (2.3%), Non-Food (clothing represents the main sector of activity) (7.2.%), Real estate (6.3%), and Services which mainly includes Health and Wellness (6%).

TABLE 3 - FRANCHISOR BY MACRO-SECTORS

% brands over total brands:	
Services	45%
Non Food	43%
Food	12%
Total	100%

Source: FIF - Confesercenti - data BRD Consulting

FEDERAZIONE ITALIANA FRANCHISING

BUSINESS® RETAIL DEVELOPMENT

TABLE 4 - FRANCHISOR BY SECTOR

FOOD	**12.0%**
Traditional Food, Healthy and Nutrition Food	1.4%
Bar, Pub, Wine	2.0%
Fast Food, Self Service and Rotisserie	2.3%
Ice cream, yogurt	1.3%
Pizzerias	1.1%
Restaurants, Pubs, Ethnic	1.8%
Supermarkets and Discount	2.2%
NON FOOD	**43.3%**
Clothing	7.2%
Child and Maternity Apparel	4.1%
Women's Clothing	4.0%
Intimate Apparel	2.2%
Sportswear	1.2%
Men's Clothing	1.3%
Furniture and furnishings	2.8%
Cars	2.1%
DIY, Hardware, Paints, varnishes, glass	0.8%
Shoes and Accessories	4.3%
House wares, Curtains and Gifts	3.4%
Herbs and Cosmetics	1.8%
Office supplies	1.8%
Cameras & Optics	1.3%
Jewellery and Watches	2.7%
Computers, Electronics, Security Systems	2.3%
SERVICES	**44.7%**
Pets	0.8%
Training and Education	1.7%

Games and Services for Children	2.9%
Gaming and sports betting	0.4%
Internet Telephony and	1.0%
Laundry	0.9%
Advertising and Communications	1.1%
Health and Welfare	6.0%
Business Services	2.1%
Services to People	5.1%
Home Products and Services	2.6%
Financial Services	4.9%
Real Estate Services	6.3%
Sports and Leisure	0.2%
Travel	5.0%
Video rental	1.2%
Unclassified	2.6%
TOTAL	**100.0%**

Source: FIF – data BRD Consulting

2. **Survey results analysis by FIF-BRD Consulting**

This research surveys a large representative sample of Italian franchisors (236), about 25% of the total franchisors.

Franchising & women's entrepreneurship has risen up to 22%. The number of enterprises the women have managed or those with a large female participation included Services (25%), NON FOOD 15%. In particular, the presence of female managers in the food sector seems to be very slow.

Many franchisors have direct outlets (71%, Table 5) and only one quarter of them have a direct point of sale; another quarter of them have from 2 to up to 4 points of sale-; about 12% have over 50 points of sale in Italy.

TABLE 5 - DIRECT SALES ITEMS AND AFFILIATES

% Franchisor without direct points of sale	29%
% Franchisor with direct outlets	71% of which: 23% 1 p.s. 24% 2-4 p.s. 41% 5-49 p.s. 12% more than 50 p.s.
Total	100%

Source: FIF - Confesercenti - data BRD Consulting

The survey analysis shows that the birth of the franchise companies(36 out of 100, Table 6) dates back to the 90s. Although about 20% of them have large experience in business of over forty years, they started the franchise industry most recently.

Essentially, the majority of companies studied in this survey (53%) started new franchise operations since 2000 and only a small proportion, (less than 10%), since the 80s (Table 7).

TABLE 6 – STAR UP YEAR OF COMPANIES

After 2000	27%
'90	36%
'80	16%
'70 and above	21%
Total	100%

Source: FIF- Confesercenti- data BRD Consulting

TABLE 7 – START UP YEAR FRANCHISE OPERATIONS

After 2000	53%
‘90	38%
‘80	5%
‘70 and above	4%
Total	100%

Source: FIF- Confesercenti - data BRD Consulting

The initial investment amount is changing according to the franchise sector. For Food and Non Food, the average is 80,000 euros; for the Service sector is about 35,000 euros. The modal value, or most frequent value, is ranging from 20,000 euros up to 3 million euros.

Initial investment may also include:

a) INITIAL FEE, or right of entry. It is required by franchisors in the Service sector (77%) , Food (59%), and Non Food (36%). Generally it is around 13. 000 euros (Table 9);

b) Royalties, or rental payments. Over 40% of the surveyed franchisors request the royalties payment. (Table 10). The royalty rate is significantly lower in Non-Food sector (only 22%) and quite higher in Services (63%) In most cases the royalty rate requirement is according to the turnover (60% of cases), with the average target of 5%. The payment rate may vary from 250 to 500 euros each month;

c) The advertising fee is reqired by 25% of franchisors (30% in Service and only 14% in FOOD, Table 11). The most frequent amount of the advertising fee is 1200 euros – in line with fixed amount – or 3% of the total turnover.

TABLE 8 - SAMPLE of INITIAL INVESTMENT FEE

Less than 30 000 Euro	42%
30 to 60 000 Euro	28%
60 to 120 000 Euro	19%
From 120 to 500 000 Euro	7%
Over 500 thousand Euro	4%
Total	100%

Source: FIF - Confesercenti - data BRD Consulting

TABLE 9 – ENTRY FEE

% Of franchisors asking for the entry fee	
FOOD	59%
NON-FOOD	36%
SERVICES	77%

Average Fee 13,400 Euro

FOOD	15,000 Euro
NON FOOD	8,000 Euro
SERVICES	12,000 Euro

Source: FIF - Confesercenti - data BRD Consulting

TABLE 10 - ROYALTIES

Over 25% of franchisors require the royalty payment, with the following percentages rates:

FOOD	14%
NON-FOOD	23%
SERVICES	30%

Source: FIF - Confesercenti - data BRD Consulting

TABLE 11 - ADVERTISING FEE

Over 25% of franchisors require the advertising fee

FOOD	14%
NON-FOOD	23%
SERVICES	30%

Non-monetary claims by the franchisor includes:

a) 19% of the franchisors require previous work experience in the business sector (Table 12);

b) 98% of the franchisor provides initial training stage for an average duration of 15 days (Table 12);

c) the minimum duration of the contract between franchisor and franchisee is usually 5 years and may varies from one sector to another (lower in the NO FOOD: 4.5 years);

d) the minimum area required is just under 100 square meters. The modal value (the most common) is 60 sqm. It may change depending on the business sector. In the Services sector, it is normally 68 square meters. In NON-FOOD is 103 sqm. In FOOD is about 163 square meters. The area required will also vary depending on the type of the store (100 sqm for the shop area and 200 sqm for the store) and location (50 sqm and 100 sqm in the shopping street in the mall).

TABLE 12 - TRAINING

-% Franchisors who require previous work experience in the business sector 19%

-% Franchisors who offer periodical training 98%

duration:

Less than 10 days	51%
10-30 days	46%
More than 30 days	3%

Source: FIF - Confesercenti - data BRD Consulting

3. The geographical distribution of the franchised stores

The geographical analysis of the franchised stores operating in Italy, follow the geo-coded maps provided by BRD Consulting and G & O. We selected seven maps, especially focused on Non-Food and Services sectors.

Specifically, the maps are divided in: FOOD (restaurants, taverns and ethnic restaurants); NON FOOD (intimate apparel, footwear and accessories, furniture and furnishings, photography); SERVICES (personal services, health and wellness and pets) .

FOOD

In Italy the Food concepts, like restaurants, taverns and ethnic groups is still low (2% of franchisors and 1.3% of outlets) and its geographical distribution is limited to about 19-20 provinces. The stores are mostly concentrated in the major metropolitan areas.

NON FOOD

Intimate Apparel stores (2.2% franchisors and 3.4% total points of sale) are operative throughout the Italian country. The higher level of presence is in the provinces of Lombardia and Veneto and along the Tyrrhenian coast of Lazio and Campania. Moreover in Puglia and Sicilia.

MAP:

Intimate Apparel

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province

The always increasing development of franchising network for shoes and accessories (3.5% of total stores and 4% of the brands) shows a larger number of outlets in Emilia-Romagna and Calabria .

Furthermore in growth are the furniture and furnishings stores(2% Total retail and about 3% of the brands). The higher level of presence is in the provinces of Piemonte, Lombardia, Veneto and all along the Adriatic coast, from Veneto up to Emilia-Romagna, passing through Puglia and Marche

MAP:

Furniture and Furnishings

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province

Photographic and optical franchise stores are more concentrated in the provinces of the past industrial triangle (Piemonte, Lombardia and Liguria) with over 1.3% of franchisors and 1.8% of outlets. Medium presence in Triveneto and in the provinces of the North-Adriatic coast. Furthermore in the metropolitan of central and southern areas.

MAP:

Photographic and Optical

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province

SERVICES

Personal Services sector include 5% of franchisors and 2% of franchisees (medical care service, including dental, postal services, communication, and road accidents). Services sector is increasing businesses in medium-sized cities, as well also in the provinces of Toscana, although the poor franchise outlets distribution.

MAP

Personal Services

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province

Health and wellness is one of the fastest growing sector in the franchising industry. Currently, Beauty salons and Spas are climbing up to 6% of the total number of franchisors and up to 6% of total outlets. The highest concentration in Health and Wellness is within the provinces of Lombardia and Veneto (Milano, Como, Varese, Bergamo, Brescia, Verona, Vicenza, Padova, Venezia etc..)

MAP

Health and Wellness

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province

Pets: 1% of total brands and 0.1% of total outlets. The presence of franchised store of Pets in Italy is concentrated in four provinces (Roma, Milano, Padova, Venezia) with at least three stores each.

MAP:

Pets

Geographical distribution of outlets

Source: www.geofranchising.it

Number of p.s. within the Province