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SUMMARY INDUSTRY MARKET PROFILE FRANCHISING IN MEXICO

THE OPPORTUNITY

Changes in Mexico's legal environment have rapidly established franchising as a major vehicle for exporting to Mexico. Significant franchising activity began in 1988 with the formation of the Asociación Mexicana de Franquicias, (AMF) Mexico's franchise association. However, Mexican corporate and intellectual property laws worked against the franchisor and some apparent franchises were actually joint ventures. New laws provide protection to franchisors similar to that in Canada and the U.S. The result has been an explosion of franchises, particularly in the fast-food area. According to the AMF the franchise sector grew by 37 percent in 1992 alone. Fast-food franchises may have already grown to the saturation point, at least in the major cities, but there are continuing opportunities for Canadian companies in many franchise areas.

For additional information on Mexico and business opportunities in Mexico contact the Department of Foreign Affairs and International Trade at:

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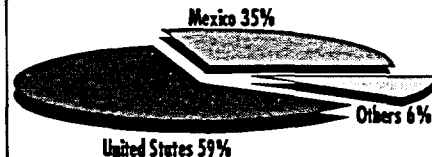
DISMANTLING THE BARRIERS

Until recently, Mexico was a poor prospect for franchising. Traditionally, Mexicans considered franchise agreements as sales with strings attached, which they regarded as foreign interference. The 1982 Transfer of Technology Law gave SECOFI (the Department of Commerce and Industrial Development) authority to closely regulate franchises. The government approved royalty rates, set the duration of franchises, and monitored the overall process. Franchisees were given substantial rights beyond those specified in the franchise agreement. Intellectual property, such as trademarks and industrial secrets, were not adequately protected. For example, under the 1982 law trademarks reverted to the franchisee at the end of the franchise agreement. Barriers to trade and the repatriation of profits compounded the problem.

The government began to change its policies in January 1990 by allowing foreign franchisors more control. Thirty-eight U.S. franchisors and about a dozen from other countries entered the market that year.

In June 1991, the Promotion and Protection of Industrial Property Law went into effect. The new law recognized franchises as a form of licensing, and all of the earlier restrictions were repealed. Government regulation of

NATIONALITY OF FRANCHISORS IN MEXICO



Source: U.S. International Trade Commission

franchises was discontinued and the parties are now free to make their own arrangements, which are binding on the franchisee. Industrial secrets and intellectual property are fully recognized in Mexican law.

By the end of 1991, franchisors had doubled to 100, and another 50 entered the market during 1992. According to the U.S. International Trade Administration, the franchise market in Mexico was worth more than U.S. \$5 billion in 1992 and was projected to grow at 20 percent per year through 1994. The FTA gave Mexico's franchise market its highest ratings for "receptivity" to U.S. products and for lack of barriers to entry. Nonetheless, enforcement is still a potential problem, and the franchise association is working with the government and international organizations to develop effective regulations.

HIGHLIGHTS

Mexico offers many opportunities for Canadian franchisors:

- Legal changes, beginning in 1990, eliminated government regulation of the industry and established franchising as a legitimate means of business development.
- Rising incomes are making franchise products more accessible to Mexican consumers.
- International brand names and products are attractive to Mexican consumers.
- Franchises offer wealthy Mexicans a way of protecting their assets in an economy that is rapidly being transformed by foreign competition.
- Mexican banks have begun to recognize franchises and are offering customized financial packages.
- Mexican family businesses which have traditionally dominated the retail scene are converting to franchises in order to gain the brand recognition and management expertise they need to stay competitive.

