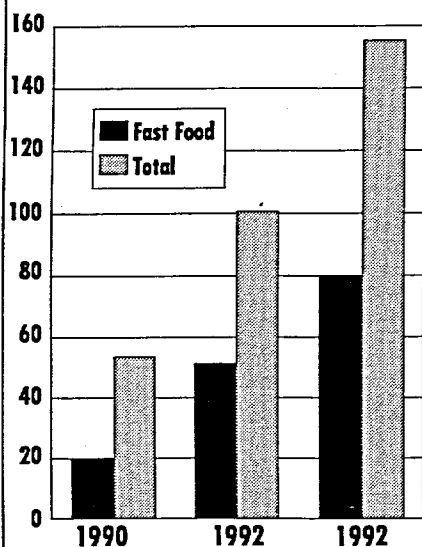


THE ROLE OF IMPORTS

One of the main attractions of franchises is the use of brand names, and Mexicans recognize foreign brands as representing high quality. As a result, almost two-thirds of franchisors are from outside Mexico. Fifty-nine percent are from the U.S. and 6 percent are from Canada and Europe. In addition to the sale of the franchise itself, franchises provide an ongoing market for exported products and services. For cost reasons, most franchisees buy what they can locally. Low labour costs in Mexico, combined with duties of up to 20 percent on imported supplies, favour local sourcing but the high quality expected from franchises often requires significant imports. Typically, equipment and store fixtures are imported, as are key products. The large franchises like Arby's, Burger King and KFC have adequate volume to have their supplies made in Mexico under supervision. All three reportedly source more than 80 percent of their purchases in Mexico.

FRANCHISORS OPERATING IN MEXICO



Source: U.S. Foreign Trade Administration

OVERVIEW OF MEXICAN FRANCHISES

In 1992 there were about 150 franchisors, with more than 4,500 outlets operating in Mexico. They employed more than 90,000 people. About half of them are in the fast food sector.

Franchises are centred around the large cities. Mexico City, Guadalajara, and Monterrey account for 90 percent of them. Most of the rest are located near tourist centres but as these markets become saturated, regional franchises will become much more important. Presently, only 6 percent claim national coverage.

The fast food sector offers the best opportunities for a number of reasons. Mexico's population is young, with more than 60 percent under the age of 24. The 15 to 49 age group, considered the best market for fast foods, constitutes 53 percent of the population and this population segment is projected to continue to grow into the next century. Franchising was unknown in Mexico until a few years ago and young people are considered more open to new ways of doing things.

Franchising is growing rapidly in non-food areas as well. Examples include dry cleaning, rapid printing, automotive repairs, hotels and consumer electronics. Franchised convenience stores are beginning to displace small grocery and liquor stores. Although the franchises have higher prices, they also offer a wider variety of goods. Circle K, 7-Eleven and Diamond Shamrock franchises are the market leaders.

According to Mexican Franchise Association the industry grew 37 percent in 1992. The association recently surveyed its 105 members. A profile based on average responses of the two-thirds who replied, is shown in the accompanying table.

PROFILE OF THE AVERAGE MEXICAN FRANCHISE OPERATION

CONTRACT DURATION	7 years
LICENSING FEE	U.S. \$23,500
INITIAL INVESTMENT FOR THE LARGEST 70 % OF FRANCHISES.	U.S. \$237,000
PAYBACK PERIOD	18 months
OPERATING MARGIN	28 % of sales
ROYALTY FEE	3.5% of sales
PROMOTION FEE	1.8% of sales

Source: Asociación Mexicana de Franquicias

FRANCHISE CUSTOMERS

Franchises in Mexico are usually granted through a master franchise system. A master franchise covers a specific geographic area, which may be all of Mexico. The master franchisee then licenses retail franchises under the terms of the master agreement. This approach is effective in Mexico, because franchisees there usually require greater supervision than they do in the rest of North America.

One of the limitations on the purchase of franchises in Mexico has been a shortage of debt financing. For this reason wealthy individuals have been important purchasers, especially for master franchises. Franchises offer them a means of preserving their wealth in an economy that is being rapidly transformed by foreign competition. Franchises are relatively low risk and offer good return on investment. These investors often hire others with experience in retailing to manage their franchises. This contrasts with the experience in Canada and the U.S. where owner/operators are the norm.

Smaller investors are beginning to enter the market now that the banks are beginning to recognize franchises as collateral for loans. Banamex and