# Turkey: Franchising Market in Turkey

## Summary

Franchising is a well-known concept to Turkish investors and consumers, with many U.S. brands that are already present in the market through master franchisees. Until now the concentration of these ventures has mainly been in the food and real estate sectors. However, given Turkey's strong economic growth over the last years, there are great opportunities for U.S. franchisors of almost all types of goods and services. Furthermore, the availability of bank loans that facilitate business investment in franchising is making Turkey an increasingly attractive market for U.S. franchising companies.

## Market Demand

Turkey's geographic position between the Middle East, Southeastern Europe, the Caucasus, and Central Asia gives it a unique character. Its dynamic economy, population of approximately 77 million, and young and ambitious entrepreneurs make the country an attractive market for franchisors around the world.

It has been nearly twenty years since franchising arrived in Turkey. The first brand to enter the Turkish market was McDonald's in 1985 and the influx of foreign brands has continued since then. In order to structure the sector and create cooperation between the franchisor and franchisee communities, the Turkish National Franchising Association (UFRAD) was founded in 1991; UFRAD is now a member of the World Franchise Council. The Association has members of both local and foreign origin.

The demand for new franchising concepts in the market is primarily triggered by the following factors:

- Turkey has a vibrant economy with a highly developed entrepreneurial spirit. Turkish companies have understood the importance of expanding their market through popular brands and thus invest in activities that help brand creation. As a result of this demand for brand names, as well as global brands entering the Turkish market, we expect an increase in the presence of Turkish brands through franchising.

- Since the start of the economic recovery in 2004, Turks have enjoyed growing purchasing power, a power that is supported by the population's average age of 27. This triggers demand for well-known, global brands and quality service.

Over the years, the sector has grown mainly on the axis of restaurants and real estate franchises, but as mentioned above, demand is increasing for the following types of services as well:

- Children's education
- Training and personal development
- Services: Facility management, janitorial, healthcare, elder-care, maintenance, personal beauty, hotels, IT maintenance services, car care, industrial cleaning services, services for pets, and education

## Market Data

There is no definitive figure for the size of the market. This is mainly due to the fact that franchising is a developing concept in this country and selling through dealers is also perceived as a franchise system. When this is taken into account, we note that there are approximately 1,470 brands in the market. 24% of these brands are foreign, 76% are national brands. Total number of branches of franchisors / dealers have reached 47,000.

Some of the U.S. brands in the Turkish market are:

- Fast food: Arby's, Burger King, Kentucky Fried Chicken, Mc Donald's, Carl's Junior, Shake Shack etc.
- Pizza: Domino's Pizza, Little Caesars, Pizza Hut
- Sandwiches: Subway
- Coffee and ice cream: Dunkin' Donuts, Starbucks, Caribou, Cold Stone Creamery etc.
- Business services: Dale Carnegie Training, Regus Group, UPS, DHL, Fedex, Office 1 Superstore, etc.
- Children's services: Gymboree
- English as a Foreign Language: ELS, Wall Street Institute, etc.
- Hotels: Hilton, Conrad, Sheraton, Hyatt, Ritz Carlton, etc.
- Janitorial & Cleaning Services: Jani King, Servicemaster, Truly Nolen
- Car Rental: AVIS

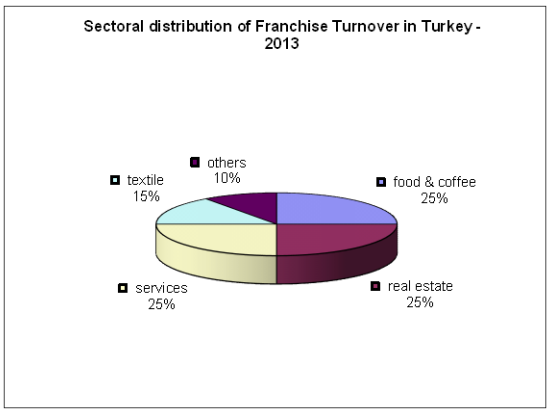
Competition for American companies stems from Turkish brands and foreign, non-U.S. ones. Turkish entrepreneurs have comfortably borrowed the pizza restaurant concept, opening and heavily marketing restaurants with very similar decoration, menus and take-away service. The main competitors of U.S. fast food companies are Turkish fast food chains that serve Turkish cuisine, such as fish, kebab, meatball or pide (Turkish pizza), in fast food fashion.

In response to the aggressive market building by U.S. coffee brands, such as Starbuck's, Turkish coffee chains have started to pop-up. In fact, the coffee market is growing so rapidly that there are new stores being opened almost every day by both U.S. brands and by some Turkish ones as well.

In the automotive services and car care sector, Turkish entrepreneurs have introduced concepts similar to U.S. ones. German brands, like Sonax and Polymer, have also been influential in this area.

Turkish companies are active in delivering educational services towards children as well. Providing childcare and educational services has been developing rapidly in the last few years. Especially, in big cities, like Istanbul, Ankara, and Izmir, the number of career women is on the increase, which has automatically resulted in an increase for these kinds of services.

The distribution of the turnover by sector is:




## Best Prospects

The Turkish market is open to the following type of franchise investments:

- **Fast food/casual dining and coffee franchises:**

  Many of the major U.S. franchisors in the fast food/casual dining and coffee concepts are already in the Turkish market. However, due to the size of the population and the improving economic conditions, demand from Turkish investors for contacts with U.S. franchisors remains strong. Improving economic conditions are producing large investments in commercial real estate and shopping mall projects. All of these projects are designed to include food courts, and Turkish companies are always looking for new U.S. brands to offer in these new venues. Additionally, American cuisine is widely accepted and liked in Turkey.

- **Real-estate franchises:**

  Construction of housing is expected to be a target for major investments in the coming years. The total housing stock in Turkey is 16.2 million units, 83.8 percent of which are within the boundaries of towns and cities. Even when only legally-registered houses are taken into account, the number of new houses needed is 2.5 million. Projections made up to 2015 state that, on an annual basis, 900,000 houses must be built to meet demand during this period. Currently, there is a shortage of 300,000 houses, a shortage which is estimated to increase to 500,000 in the near term.

  Another factor that is expected to trigger demand for housing projects is the mortgage law, passed in the Turkish Parliament in February, 2007. This measure increased the base number of people who can afford to buy a house.

  Non-residential construction is another area of growth in this industry. Approximately thirty percent of the construction permits given are for the construction of commercial buildings.

- **Child-care/education franchises:**

  Approximately 15 percent of the population is at the elementary school age. The rate of mothers who return to work following their official maternity leave is increasing, a trend which is pushing the demand for quality child care and development centers.

- **Retailers/Textile/Ready-to-Wear Brands:**

Domestic and foreign department stores stocking primarily clothing items are growing in number and are spreading to various parts of the country through their franchisees. Stores that cater specifically to consumer groups with higher purchasing power are increasingly evident in the Turkish market.

- **Services:**

  There is potential for many types of service enterprises in Turkey. There is demand for **maintenance or repair services,** stemming largely from the insurance industry. As the number of commercial offices and residences is on the increase, **facility management services** of high quality is needed. This service is also necessary in hospitals, as investment in new hospitals is a growing segment in Turkey due to the government's decision to integrate the private sector into the healthcare system.

  Tourism is currently one of the largest service sectors in the country, a sector that will continue to expand as investments rise with growing tourist figures. New hotels are under construction and they are looking for **'hotel management'** companies. Additionally, **spa** tourism is growing and U.S. companies in the spa business could develop a healthy market in Turkey. Finally, given the increase in purchasing power in the country, demand for **personal care services, like beauty centers, fitness centers and hair saloons,** is on the rise.

## Market Entry

It is essential to enter the Turkish market with a 'master franchisee' that is already experienced in the sector in question, or has the financial capacity to make the right investments. Knowing the regulatory and business framework in Turkey is almost an impossible task for foreign companies without the support of a local business partner. In addition, rents for office/restaurant space are expensive in Turkey, necessitating a substantial amount of investment on the franchisee's side. Retail office space in relatively central locations of the city start at $45/m2 and go all the way up to $400/m2. In the food court sections of shopping malls, the range is usually as follows:

| | |
|---|---|
| 0-100m2 | $70-80 |
| 100-200m2 | $70-75 |
| 200-250m2 | $55-60 |
| <500m2 | $40-50 |

The Commercial Service in Turkey has a number of programs and services available to assist the U.S. business community in establishing a presence in this market. In addition, the Commercial Service in Turkey employs experienced Commercial Specialists with industry sector expertise who can tailor your business approach to the right audience and help steer your company through the often less than transparent bureaucratic procedures that are common in Turkey. To find out more about what we do to help you, please visit our web site at http://export.gov/turkey/.

## Market Issues and Obstacles

### Legal Issues

There is no specially designed regulation for franchise agreements under Turkish Law. Therefore it is very important that U.S. franchisors prepare the franchise agreements they will have with their master franchisees under the guidance of a local law firm with experience in this area.

The Turkish Commercial Code and the Trademark Code protect registered trademarks in Turkey. Internationally known trademarks not registered in Turkey are protected under the general provisions of the Turkish Commercial Code regarding Unfair Competition, and the Paris Treaty, to which Turkey is a party.

In the case of the termination of an indefinite-term franchise agreement between the franchisor and the master franchisee, the termination notice of the agreement must provide the franchisee time to reorganize its business. Therefore, the application of the "six months period provision [stated] in the Turkish Code of Obligations for ordinary partnerships" to the Franchise Agreements would be reasonable for the franchisees as well as for the franchisors.

Another important point to mention regarding the termination of the franchise agreements is the status of competition after the termination of the agreement. Unless otherwise stated in the franchise agreement, the franchisee cannot be bound by a non-competition stricture after the termination of the relationship.

When choosing the applicable law and competent courts, the parties should consider that there is no agreement between United States and Turkey for the recognition and enforcement of the judgments rendered by national courts; actual reciprocity exists only between some states of the USA and Turkey. On the other hand, as Turkey is a party of New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the parties are entitled to have recourse to arbitration proceedings.

**Financial Issues**

A) As more and more franchisors have decided to assign master franchisees in the country, many of the major commercial banks have launched franchise support loans for franchisees that are entering the system for the first time or for those that are already franchisees, but want to upgrade their systems. The loans are generally targeted to franchisees that plan to operate food, maintenance, facility management, cosmetics or textile related operations. The content of these loans is usually:

- franchise fee loans
- franchise investment loans
- office space purchase loans
- fleet loans

B) Additionally, a U.S. Government Agency, the Overseas Private Investment Corporation (OPIC) is committed to helping U.S. business franchisors grow by providing long-term financing in emerging markets around the world and is able to provide financing to a variety of business entities involved in international franchise relationships: http://www.opic.gov/financing/loans/franchise/index.asp

OPIC requires significant U.S. involvement in franchising transactions. This means that 25 percent of the project must be under the ownership of a U.S. small business, or have significant involvement of the U.S. franchisor in the project. "Significant involvement" can mean:

- the business concepts and systems employed by the franchisee were originally developed by the U.S. small-business franchisor;
- there is a long-term franchise agreement among the U.S. franchisor, the local in-country master franchisor, and the franchisee;
- local use of the U.S. franchisor's trademark or brand-name; and
- the U.S. franchisor has a long-term financial interest through receipt of franchise fees.

OPIC also expects the project to meet the general requirements outlined in the section on "Financing Details'' on the website http://www.opic.gov/financing/details/index.asp

Loan terms for franchise loans generally range between 3-8 years, with an interest-only grace period not to exceed six months. Available loan amounts range from $100,000 up to $4 million. Loans over $1.5 million should generally involve multiple units.

## Trade Events

**'Bayim Olur musun?'('Be My Dealer' Expo)**
This expo is the only national franchising event in the country. The first event of this year will be on September 18-21, 2014.

Location: CNR Fair and Congress Center
Istanbul/Turkey
For more information: http://www.bayimolurmusun.com.tr/

## Resources & Key Contacts

**UFRAD – National Franchising Association**
Address: İnönü Caddesi No:40 Florya, Istanbul, Turkiye
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Fax #: [90] (212) 425-5759
Website: http://www.ufrad.org.tr

## For More Information

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