ASSESSMENT OF PROSPECTS FOR U.S.-BASED FRANCHISES IN THE PHILIPPINES (PHASE II)

U.S. Agency for International Development

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EXECUTIVE SUMMARY

Purpose of the Study

The purpose of Phase II of the study is to evaluate the potential for investment by U.S. franchisors in the targeted list of industries developed in Phase I, and to focus more specifically on the potential for U.S.-based franchisors in the Philippines.

The specific objectives of this second phase of the study are to evaluate the potential demand for the USAID Franchising Loan Guarantee Facility, and to make recommendations for the modification and marketing of the facility in the Philippines.

Entering the Franchising Market in the Philippines

American franchisors have been active in the Philippines for more than a dozen years. Today 19 U.S.-based franchisors are registered to do business using franchise agreements in the Philippines. Despite the developing country status of the Philippine economy, franchisors have found profitable market niches in Philippine franchising.

Most franchises operate in and around the Metro Manila area. Regional markets, including the fast growing cities of Cebu and Davao, are now beginning to be developed by franchisors. Business leaders in those cities are anxious to have additional U.S.-based franchisors as partners, and are particularly interested in franchises outside of the fast food industry.

Key considerations for U.S. franchisors contemplating investments in the Philippine market are: what specific industries show promise for future growth; whether fast food and restaurant franchising is a saturated market, and; whether the overall economic and political conditions in the country will be favorable for franchising.

Franchise Industries with High Potential for Success

Phase I of this study identified 14 industries with potentially high prospects for success in the Philippines. These industries are:

1. Business Aids and Services
2. Printing
3. Security Services
4. Food and Beverages
5. Retail -- Miscellaneous
6. Children's Stores, Furniture and Products
7. Automotive Repair Services
8. Health Aids and Services
9. Cosmetics and Toiletries
10. Hotels and Motels

11. Home Furnishings
12. Laundry Services and Dry Cleaning
13. Maintenance, Cleaning and Sanitation
14. Real Estate Services

Each of these industries was analyzed in detail in Chapter V of the Phase I report.

Opportunities in the Food and Restaurant Industry

Most franchises operating in the Philippines are in the fast food industry. Despite concerns about market saturation, good opportunities still exist for new and expanded franchises, especially in areas outside of Metro Manila.

The fast food market recently has become particularly price-sensitive. Many promotions are related to price discounts, indicating growing competition between current market players. McDonald's and Shakey's are good examples of popular and profitable fast food franchisors facing stiff price competition. Dunkin' Donuts is a popular franchise with firm plans to open new outlets, both in Manila and other Philippine cities.

General Economic and Political Conditions

The overall outlook for the Philippine economy is brighter than at any time since the first days of the Aquino administration. Political stability and tough economic reform will combine to provide a stable climate for foreign investors. Tariff reform, changes in currency regulations, monetary discipline and a paced stabilization program will contribute to economic stability, and attract foreign as well as domestic investment.

Historically, political stability has been the first concern of foreign investors considering the Philippines. The relatively peaceful installation of President Ramos and his commitment to economic and political reform have greatly improved investor confidence. Political insurgency from the rightists, leftists and Muslim successionist movements has been greatly reduced, and is expected to be further dampened by the continuing reform efforts of the government.

Demand for the USAID Franchising Loan Guarantee Facility

Because the USAID Franchising Loan Guarantee program is new, it is difficult to predict with detailed accuracy the likely utilization rate for the guarantee in the Philippine context. Some broad estimates can be made, however, based upon the number of industries considered to be high potential targets for expansion or growth, and the average cost to open a franchise in each of those industries.

Using cost data from 55 U.S.-based franchises, a range of estimates were made for the likely utilization of the Franchising Loan Guarantee Facility. Estimates were made assuming successful market penetration by the 55 franchises at three levels: 10%,; 25%; and 33%. Both entry of new franchises and expansion of existing franchises over the next three years were considered. Using the study team's model, the predicted new investment in franchising in the Philippines is as follows:

Combined Investment
Master Licenses, New Franchises and
Expansion of Existing Franchises

Market Penetration	Expansion Low	Expansion High
10%	$ 7,247,000	$ 9,131,000
25%	$ 13,015,000	$ 17,411,000
33%	$ 13,073,000	$ 21,551,000

Currently, franchise financing is not available from Philippine banks. Both business owners and bankers would be interested in utilizing the USAID loan guarantees to assist with financing of the predicted new investments in franchising.

Total investment is predicted to range from a low of $7.2 million, to a high of $21.5 million in new and expanded franchises over the next 3 years. Loan utilization will likely be lower, because of equity participation requirements on the part of franchisees. With an equity contribution of 20%, total lending to new and expanded franchises would range between $2.8 million and $8.6 million. At the level of 25% market penetration, between $5.2 million and $6.98 million in additional loan guarantees will be utilized.

This level of new guarantee utilization is well within the existing authority amounts. Only at the upper range of expected growth (33% market penetration and the maximum number of franchisees and outlets) does the required loan guarantee authority exceed existing authority.

Improving and Marketing the Loan Guarantee Facility

The study team explored several ways to improve and market the Loan Guarantee Facility. To ensure utilization, the guarantee program needs to be explained to both the individual Filipino business owners and the bank lending officers involved. The study team recommends the following steps to improve the program:

Provide Franchising Training for the Intermediary Financial Institutions

The consensus of those interviewed for the study was that a modest training program, widely publicized and marketed, could have a beneficial impact on U.S. franchising efforts in the Philippines. Such a training program could include presentations from USAID, other financial institutions that have successfully developed markets in franchising (including a number of Canadian banks), and international franchising associations (including those in the Asia region).

Conduct Additional Small Business Loan Guarantee Training Seminars

Some bank officials expressed a lack of familiarit with details of the administration of the current Small Business Loan Guarantee Program. Consequently, not all bank lending officers actively work to promote the program because of this lack of familiarity. USAID/Washington may wish to sponsor additional banker training seminars along the lines initiated in the Philippines in early 1992 which were so well received.

Monitor Loan Guarantee Limits

The predicted level of new guarantee utilization is well within the existing authority amounts. Only at the upper range of expected growth (33% market penetration and the maximum number of franchisees and outlets) does the demand for loan guarantees exceed existing authority. For this reason, the study team recommends that no changes be made in the available amounts of guarantee facility at this time. Utilization of the guarantee facility should be closely monitored, however, to anticipate any required increases necessary to meet increased demand over the next one to two years.

The study team recommends the following steps to market the franchising loan guarantee program:

Promote the Franchising Market Study

Provide copies of Phase I of this marketing study to USAID Manila, for use with local business groups around the Philippines. The International Franchising Association in Washington, D.C. (I.F.A.) has also agreed to assist in providing copies of the study to its U.S. members.

Conduct a Franchising Training Seminar

Expand the training seminar to include Filipino franchisees, franchisors, master licensees and prospective investors. Topics should include franchising as an investment opportunity, U.S. franchising and high potential markets, franchise financing, and the USAID Loan Guarantee Facility. The Manila based study team believes strongly that presenters to the conference should include local master licensees in the Philippines.

Lead a Study Tour for Prospective U.S. Partners

Consider combining the franchising seminar with a "study tour" for American franchisors to visit the country. The I.F.A. has expressed willingness to assist with marketing such a tour to its 2,500 member companies.

Establish a Philippine Franchise Association

Consider assistance to the Philippine business community to start a Philippine Franchise Association. The purpose of such a trade group would be to provide information and training to the members, and to give the industry a single voice in important policy issues. A beginning association could include franchisors, franchisees and their suppliers, including attorneys, accountants and other professional service providers. Both Philippine and foreign companies could be members.

CHAPTER I

CONCEPTUAL FRAMEWORK

A. BACKGROUND

The U.S. Agency for International Development (USAID) has recently developed a world-wide program of loan guarantees available to local entrepreneurs interested in purchasing franchises from U.S. franchisors. Non-U.S. franchisees in A.I.D.-assisted countries may obtain loan guarantees of up to 50% for loans used to open U.S. franchises. The loans must be obtained from participating private sector banks, and the participating franchisors must be screened by A.I.D. in advance. Guarantees are available to local franchisees and to "master franchisees" or area licensees working with U.S. franchisors. The program is administered by the Office of Investment of the Bureau for Private Enterprise (PRE/I).

The Private Enterprise Support Office (PESO) of USAID/Manila would like to move quickly to implement the loan guarantee program, if it can be shown to be both beneficial and practical for the Philippine business community.

PRE/I and PESO together sponsored this two-part study of the prospects for U.S.-based franchising in the Philippines. The study was conducted by Coopers & Lybrand's International Management Consulting Services Group in Rosslyn, Virginia, in cooperation with its Manila affiliate Carlos J. Valdes & Co.

In Phase I the study team prepared a qualitative review of 35 international franchising industries, which were initially believed to have some potential for growth in the Philippines. Using an analysis of known market characteristics in the Philippines for each of the industries, the team developed a "short list" of prospects deserving further analysis. (See Appendix A for an overview of the results of Phase I.)

The study team subsequently assembled data on each of the targeted industries determined to have a greater opportunity for success in the Philippines. Phase I of the study contains relevant data on market size, degree of concentration, and current market share held by industry leaders. Phase I also discusses industry trends and possible barriers to entry facing new entrants into the Philippine markets.

B. OBJECTIVES OF PHASE II OF THE STUDY

The purpose of Phase II of the study is to evaluate the potential for investment by U.S. franchisors in the targeted list of industries developed in Phase I, and to focus more specifically on the potential for expansion of U.S.-based franchises in the Philippines.

The specific objectives of this second phase of the study are:

1. To evaluate the potential demand for the USAID Franchising Loan Guarantee Facility by Filipino entrepreneurs wishing to affiliate with U.S. franchises;

2. To make recommendations for the introduction and marketing of the facility in the Philippines, and;

3. To make recommendations for any modifications and improvements to the loan guarantee program for the Philippine market.

C. METHODOLOGY

1. Determinants of U.S. Franchise Industry Growth in the Philippines

In evaluating the market opportunities for the target list of industries identified in Phase I, the following parameters were considered important to U.S. franchisors:

a. the opportunities for growth in specific industries as determined by market characteristics, barriers to entry and other factors considered in Phase I of the study;

b. franchising products and services that are not currently or fully offered in the Philippines, and franchising products and services that have failed in the Philippines;

c. the general economic and political outlook for the Philippines.

2. Demand for Loan Guarantees

Demand for the USAID Franchising Loan Guarantee Facility by potential local investors was determined to be a function of the following variables:

a. the number of "high prospect" franchise industries determined in Phase I of the study;

b. the number of U.S. franchisors who have been admitted to the USAID loan guarantee program, and the number of pending applicants, in each of the high prospect industries;

c. the number of other major international franchisors in the respective high prospect industries, including current Philippine franchises that may wish to expand;

d. the number of franchise locations expected from the pool of prospective franchisors;

e. the average cost of opening a franchise in each targeted industry.

These variables were factored together to develop different scenarios on the amount of investment in franchising, that might take place in the Philippines during the next three years.

CHAPTER II

ENTERING THE FRANCHISING MARKET IN THE PHILIPPINES

A. OVERVIEW OF U.S. FRANCHISING INDUSTRY IN THE PHILIPPINES

1. Existing Franchises

American franchisors have been active in the Philippines for more than a dozen years. Phase I of this study uncovered 19 U.S.-based franchising companies registered with the Philippine government; 14 of these are in the fast food, restaurant or food-related industries. These franchises include:

1. Dunkin' Donuts
2. Mister Donut
3. Winchells Donuts
4. McDonald's
5. Wendy's
6. Pizza Hut
7. Shakey's
8. Sbarro
9. Kentucky Fried Chicken (KFC)
10. Pollo Locco
11. Pizza Inc.
12. F & B Inc.
13. Ben Franks Inc.
14. Foster's Freeze
15. American Express
16. Avis
17. Hertz
18. Svenson Hair Care
19. Southland Corp. (7-11)

Individual conversations with senior managers of these franchising companies indicate profitable operations and positive results from their Filipino-American partnerships. It is clear from these conversations that, for many companies, franchising is already a success in the Philippines. Additional details on existing franchises in the Philippines and on the experience of U.S. franchises are provided in Chapter III of the Phase I report.

2. Consumer Outlook

The consumer market in the Philippines continues to be widely divided between the "haves" and the "have-nots". Average per capita income in the Philippines is only US$ 730. The large majority of Philippine households (70.3%) fall in the "C" and "D" market segments, which include professionals, small business owners, and white and blue collar workers with incomes ranging between US$1,500 and US$15,000 per year.

However, 7.8% of the households in the country are in the "AB" market segment, which is comprised of professionals and business owners with incomes above US$15,000 per year. These upper and upper middle income markets are targeted by Philippine franchises seeking opportunities for growth.

a. National Capital Area

Within Metro Manila, 4.4% of total households are in the "A" and "B" market segments, and 72.3% of Manila households are in the "C" and "D" markets. The proportion of households classified as "A" and "B" in other urban areas is slightly less than in Metro Manila. Other urban areas also have a higher percentage of "E" households with extremely limited purchasing power.

An increasing number of urban families have two incomes. Thus, convenience has become a desirable product characteristic. Home electronics and appliances are growing steadily in popularity, including sales of stereo equipment, television sets, small kitchen appliances and white goods (dishwashers, ovens, washing machines, etc.). Interestingly, all market segments purchase some household appliances and white goods.

Not surprisingly, until recently, the bulk of U.S. franchisors have been confined to the National Capital Area.

b. Examination of Regional Markets

The regional markets in the provinces outside Manila, including the other major metropolitan areas, are not well developed by American franchisors. With the exception of Dunkin' Donuts, most franchisors have no operations outside the National Capital Area.

7-11 Convenience Stores are currently planning a major expansion outside the Metro Manila area. Most importantly, the parent holding company plans to sell individual franchises as a means to expand into the provinces. This sale will result in the company's first use of local owner-operators to expand its franchise network.

Wendy's, which is owned by the same parent holding company as 7-11, is planning a similar expansion into other, large population centers. Like 7-11, the company plans to sell local franchises to resident business entrepreneurs.

These plans for growth using local franchisees are important indicators of the emerging need for franchise financing as a tool to assist the expansion of small business in the Philippines. In both cases, the management of the Philippine master franchisee indicated a strong interest in using the USAID loan guarantees to assist in financing their expansion into the outlying areas.

c. Cebu

On August 23rd, members of the study team met with 14 members of the Cebu business community representing small and medium sized locally owned enterprises. Several of the business owners and representatives had previously investigated U.S. franchising as a means to expand their current operations, or to enter into new ventures.

The businesses represented included real estate development, restaurants and fast food, movie theaters, commercial maintenance and cleaning, laundry services, security services, and hotels and motels, as well as manufacturing and exporting. Representatives of a local Cebu bank were present as well.

The following were among the important relevant comments of the business owners:

- Industries other than food are particularly attractive for future franchise development. Participants felt that the fast food and restaurant industry may be saturated, and they were excited about the prospects of finding international partners in other ventures.

- Potential investors are very concerned about the impact of tariffs on service industries that involve sale of foreign-made items (e.g., mufflers as part of auto servicing).

- Cebu is experiencing a building and growth boom which newspapers refer as to the local "Ceboom." (Philippine Star, 8-18-92, p. 15). There is an unmet demand for heavy equipment, equipment distributors and servicing, and truck rental.

During discussions with the study team, participants also identified the following specific business opportunities as areas they would like to explore with American partners: real estate, theaters, quick printing, vending machines, coin operated self-serve laundries, auto and truck rentals, equipment leasing and advertising.

d. Davao

The study team met with key officers of Davao City's chamber of commerce on August 28. The following are highlights of the discussion:

- The local communities are enthusiastically awaiting the opening of the first fast food stores, McDonald's and Jollibee, in the area. They expressed the hope that other fast food stores might consider setting up business in this fast-growing city.

- Davao City is being eyed as one of the core components of a growth triangle connecting Indonesia and Malaysia. In fact, the so-called Malacanang in the south is situated in the city.

- Other Wholesale and Repair Products/Services (such as Mr. Quickie), Business Aids and Services (quick printing and communication), as well as Printing (quick/quality printing) have promising market prospects in the area.

- Business owners voiced concern that, although commercial prospects may be excellent or good in the sectors mentioned above, U.S.-based franchisors might require large capital investments (which are difficult to finance) or overly strict adherence to business format franchising (such as importing equipment and other inputs which could be cheaply fabricated locally).

B. KEY CONSIDERATIONS FOR U.S. FRANCHISORS

The relevant questions for U.S. franchisors considering new investments or expansion of existing operations in the Philippines are:

(1) what specific industries and markets show promise for future growth;

(2) whether fast food and restaurant franchising is a saturated market, and;

(3) whether overall economic and political conditions in the country will continue to be favorable.

1. Franchising Markets With High Potential

Thirty five franchising industries were selected for review and analysis in Phase I of the study. Each of these industries was analyzed for its overall market characteristics in the Philippines, including market size and concentration, industry trends, cultural preferences, barriers to entry and exit, prices, production capacity and overall prospects for success.

The study team assembled available information on marketing and profitability for individual companies and larger industry groupings. The list of U.S. franchisors who have shown interest in the USAID program was compared to the list of high potential Philippine industries. Finally, the team conducted interviews with prospective investors/franchisees in Manila, Cebu and Davao. The results of this review are summarized in Appendix A.

Four industries were rated as having "excellent" franchising opportunities in the Philippines, including: business aids and services, food and beverages, printing, and miscellaneous retail. Twelve industries were rated as having "good" franchising opportunities in the Philippines. With the following exceptions, each of the industries rated as "excellent" or "good" was selected for the Philippine target list of high potential franchising markets.

Water purification was not included for further analysis because no Philippine data was available relevant to this industry, and few U.S. franchisors were found of sufficient size or financial strength to warrant operations in the Philippines. Existing franchisors in water purification do not offer the technical products required in the Philippines. However, new vendors of advanced technology products are emerging in the U.S. Interested investors are encouraged to contact the International Franchise Association directly about U.S. franchisors in these industries.

Equipment rentals were not included because Filipino business owners interviewed for the study are seeking heavy industrial construction equipment, not offered by any U.S. franchise. Also, no U.S. franchisors were found of sufficient size and financial strength to warrant international operations.

With these modifications, the target list of franchising industries was cut back to include the fourteen (14) industries listed below. These 14 industries should be the focus of Filipino and American investors considering expansion or introduction of new franchises in the Philippines. Comprehensive market data for each of these industries is provided in Chapter V of Phase I of this report.

Target List of Franchising Industries in the Philippines

1. Business Aids and Services
2. Printing
3. Security Services
4. Food and Beverages
5. Retail -- Miscellaneous
6. Children's Stores, Furniture and Products
7. Automotive Repair Services
8. Health Aids and Services
9. Cosmetics and Toiletries
10. Hotels and Motels
11. Home Furnishings
12. Laundry Services and Dry Cleaning
13. Maintenance, Cleaning and Sanitation
14. Real Estate Services

Selected companies within these target markets were used by the study team to predict possible future investment in Philippine franchises in new as well as existing markets. This model is also used to predict possible utilization of the USAID loan guarantee program. (See Chapter III.)

2. Opportunities in the Food and Restaurant Industry

Most franchises operating in the Philippines are in the fast food sector. There are currently fourteen (14) U.S. fast food franchisors operating in the country, accounting for a considerable proportion of the total of nineteen (19) registered franchisors.

Filipino entrepreneurs have shown tremendous interest in U.S. fast food franchises. However, a serious question for investors is whether the Filipino consumer will continue to share that sustained enthusiasm. Nevertheless, the fast food industry appears to be poised for further growth, with several companies planning expansion programs or planning to enter the market with new concepts.

One important company venturing to enter the market is Purefoods of the Ayala Group of companies. Purefoods is a respected name in processed meat products and is a franchisor of "Smokey's" hotdog outlets. According to a recent article in the Manila Chronicle, it is currently seeking joint start-up projects with foreign firms in order to offer a complete line of meals based on its product specialization (e.g., poultry, flour and ice cream).

Another local company planning expansion in the provinces is Chowking, a chain offering noodles. Chowking's 1992 expansion program includes areas like Baguio City, San Pablo City, Cagayan de Oro City and other locations in Metro Manila. At present, it has twenty-one (21) outlets. In 1990, Chowking began a franchise system to accelerate expansion. An initial franchise can cost from P 3.5 - P 4.5 million. Noodle and Chinese fast foods have good chances for success because of the Filipinos' love for Chinese food, and also because of the Filipinos' newly-found concern for the clean, well-lit and quick service they provide.

The fast food market recently has become particularly price-sensitive. Many promotions are related to price discounts, indicating growing competition between current market players. Wendy's, for example, has the "Super Value 5" promotion where five food items are priced comparatively cheaper. Jollibee has the "Price Sarap" promotion, which has been so successful in attracting more customers that it has recently been extended. McDonald's has followed suit by offering "Catch 23," which gives customers several items for only P 23.00. Shakey's and Pizza Hut continuously offer price discount coupons and other price and quantity discounts (e.g., a second pizza for only half the price). Advertising promotions for donuts are not as numerous and there are no price discount promotions, but the product itself is considered very inexpensive.

The consensus of industry leaders and marketing experts surveyed by the study team is that there is still potential for growth in the Philippine fast food franchising industry. The Metro Manila region can be said to be reaching saturation, particularly in U.S.- style hamburgers, and possibly in pizza and chicken. Continuing "price wars" highlight this development. However, opportunities still exist for entrepreneurs willing to operate in a stiffly competitive market, not unlike that in the U.S. or other large metropolitan areas of the world.

Greater opportunities for growth in the fast food industry appear to exist in other metropolitan areas, including Cebu and Davao, and in the outlying suburbs and smaller cities. In the provinces, price sensitivity and low disposable income will limit the potential for market growth to lower priced offerings.

3. General Economic and Political Conditions

a. Economic Outlook

Economic prospects in the Philippines have brightened recently. Gross national product is forecast to grow between 5% - 6% in 1993-94, and accelerate to 7% - 8% in 1995-96. Continued investment, particularly foreign investment, and increased exports will help make this growth self-sustaining.

Investor confidence has surged with predictions of a more stable political environment, coming in the wake of vigorous and bold reforms to reduce urban criminality and armed insurgency in the provinces. A more liberalized trade and investment regime has also attracted foreign capital. Foreigners can now own a 100% equity in almost all industries except those few considered critical to the Philippine economy (e.g., retailing and professional services).

The expected increase in foreign direct investments will come from capital surplus nations such as Taiwan, South Korea, and Japan. These Asian neighbors have shown renewed interest in the Philippines, as in the early years of the Aquino administration. Other countries planning or currently undertaking greater investments in the Philippines include the United States, Canada, Australia, and European countries like Germany and the Netherlands. Both the U.S. and Japan have opened desks at the Philippine Board of Investments, evidence of their renewed interest and confidence in the Philippines.

Tariff reform, enacted in 1991 by executive order, will bring about a gradual reduction in tariff rates and lower the number of tariff levels over the next five years. This should reduce the cost of export goods and eliminate biases against Philippine agricultural products.

Exports are predicted to increase as the Philippines secures new non-quota markets like the Middle East. The current foreign exchange liberalization measures will also help in expanding non-traditional markets for Philippine products. Exporters can now retain 100% of their foreign exchange from export receipts. While the current appreciation of the peso may dampen exports, the economic impact of currency fluctuations should be neutral on balance.

New rules permit profits to be freely repatriated at any time, in contrast to an earlier policy requiring a lengthy repatriation period. Foreign exchange is now traded 24 hours a day under the Philippine Dealing System.

The government has targeted inflation as a major problem, and has set targets for the year at below double-digit levels through its Economic Stabilization Program (ESP). The ESP requires continuous tough fiscal and monetary discipline. Interest rates are expected to ease further as inflation rates decline. In March, 1993 the ESP will be replaced by a Structural Adjustment Program designed to be more growth oriented.

In summary, the overall outlook for the Philippine economy is brighter than at any time since the first days of the Aquino administration. Political stability and tough economic reform will combine to provide a stable climate for foreign investors. Tariff reform, changes in currency regulations, monetary discipline and a paced stabilization program will contribute to economic stability, and attract foreign as well as domestic investment.

b. Political Outlook

The political environment of a nation can serve as an effective barrier to business when prospective foreign and domestic investors perceive threats to their investments. Instability in the government, concern about the security of employees or assets, and an unfavorable regulatory climate can all serve as barriers to entry.

The current political climate under the new Philippine President, Fidel Ramos, and the sweeping economic liberalization measures he has promoted, have greatly reduced barriers to business entry into the Philippines.

Historically, political stability has been the number one concern of foreign investors considering investments in the Philippines. Foreign investments declined during the last unsteady years of the Marcos rule, leading up to his fall and departure from the country in February, 1986. Investments surged immediately after the installation of the Aquino government in 1986. However, an attempted coup in December, 1989 decreased investor confidence. In all the Aquino government survived seven unsuccessful coup attempts.

The relatively peaceful installation of President Ramos and his commitment to economic and political reform have improved investor confidence once again. Taiwanese, Japanese, Korean, American, Australian, Canadian and German companies are now reporting plans for major investments in the country. A recent survey by Asian Business found that foreign business leaders feel optimistic regarding the ability of the new administration to maintain a stable environment and play a more active role in attracting investment to the Philippines. (Philippine Political Monitor, July, 1992).

Halfway through President Ramos' first 100 days in office, the Philippine Chamber of Commerce and Industry (PCCI) noted that the new administration had made significant accomplishments. Progress is cited in the elimination of graft, corruption and criminal activity within the government itself. A major public anti-crime initiative has been started, the President has announced moves to reduce tension with radical political insurgency movements. Finally, the new administration is actively trying to attract foreign investments from other ASEAN nations and Japan.

To reduce criminality President Ramos has ordered the creation of a Presidential Anti-Crime Committee (PACC) headed by Vice President Joseph Estrada. The Commission is the subject of daily front-page news in Manila. The PACC has successfully apprehended crime syndicates accused of past kidnappings, illegal logging, drug trafficking, falsification of government forms, film piracy, and organized crime.

President Ramos is taking bold measures to address the political insurgency problem. The centerpiece of this policy is an unconditional amnesty program. To show its commitment to the amnesty program the government has released five top leaders of the Communist Party of the Philippines - New People's Army (CPP-NPA) and of the National Democratic Front (NDF), and 16 officers of the Reform of the Armed Forces Movement (RAM), which was responsible for the December 1989 coup attempt. Congress recently approved measures scrapping the anti-subversion law, and in effect legalized the Communist Party of the Philippines (CPP). Exploratory talks have begun with government emissaries and leaders of exiled CPP members in the Netherlands.

The Center for Research and Communication (CRC), a private think tank, predicts that political insurgents are more likely to accept the amnesty offer now than during Aquino's term because: 1) the ranks of the radical left have been decimated by the capture or surrender of many of their political leaders; 2) the separatist movement in Mindanao has lost momentum; 3) and members of the ultra-right Reform the Armed Forces Movement (RAM) have been marginalized. (Philippine Political Monitor, July 1992)

CHAPTER III

DEMAND FOR USAID FRANCHISING LOAN GUARANTEE FACILITY

A. ESTIMATED POTENTIAL FOR FRANCHISING GROWTH

Because the USAID Franchising Loan Guarantee program is new, it is difficult to predict with detailed accuracy the likely utilization rate for the guarantee in the Philippine context. Some broad estimates can be made, however, based upon the number of industries considered to be high potential targets for expansion or growth, and the average cost to open a franchise in each of those industries.

To provide a range of estimates for utilization of the guarantee facility, the study team developed various scenarios. The team estimated the potential number of new franchises that may enter the Philippines, and the resulting number of franchisees and master licensees for each company. Estimates were also made of the potential use of the loan guarantees by U.S.-based franchises already operating in the Philippines.

1. Franchises in the Target Industries

The team based its estimates of loan guarantee utilization on a sample of actual cost data for U.S. franchises. The franchises for the sample were chosen from the target list of "high potential" franchising industries. The franchise companies selected from the target industries include:

- Franchises that have been approved for the USAID Loan Guarantee Facility;
- Franchises with pending applications to the USAID program;
- Other franchises with operations in the Philippines or Asia, and;
- Franchises within the target industries that offer products or services not currently offered in the Philippines.

A total of 55 U.S.-based franchises were found to fit these categories. At the time of the study, 14 franchisors had been approved by the Office of Investment (PRE/I) for their loan guarantee program. An additional 19 franchises in the targeted industries have applied for approval to the program and fit the other general criteria for success. Finally, the study team selected 25 other prospects, which have operations in the Philippines or Asia, or fit particularly well the most attractive characteristics of the Philippine market. (Appendix B shows average start-up costs for the various industries.)

A complete list of the international franchises with operations in Asia which were considered by the study team is included in Appendix C.

2. Estimated Number of New Franchises

To provide a range of estimates, the study team projected utilization rates for three levels of market penetration: 10%; 25%; and 33%. While these levels of new franchise activity may seem low, the team believes that a conservative approach best reflects the traditional growth patterns in international franchising. A conservative approach is also appropriate in light of the relatively small sample available on which to make forecasts. The study team believes this level of growth can be achieved during the next three years, given sufficient marketing and promotion by interested Filipino investor groups and by USAID.

For the 55 franchises in the target industries, these three scenarios predict growth of:

Market Penetration	Number of New Franchises
10%	Six (6)
25%	Fourteen (14)
33%	Eighteen (18)

Each franchise is assumed to use the master license concept, and the number of franchisees and master licensees is then estimated for each U.S.-based franchise.

a. Franchisees

The study team has assumed that each location will be operated by a separate local entrepreneur/franchisee. From discussions with U.S.-based and Filipino industry leaders, the study team estimates that most successful new franchise operations in the Philippines will need to open from three (3) to five (5) locations during the first three years of operations. Both figures are used to predict a range of growth patterns.

Smaller franchises, such as maintenance and cleaning, or retail outlets, could operate successfully with fewer locations. Some larger fast food franchisors will insist on more locations.

b. Master Licensees

The study team assumed that one master licensee will be used for each franchise that enters the Philippine market. While some companies may ultimately divide the Philippines into smaller territories, it is very likely that, during a new company's first three years of operation, only one master license will be used to start operating in the Philippine market.

These assumptions yield the following forecasts of franchise industry growth in the Philippines:

Market Penetration	New Franchises	Master Licensees	Franchisees Low	Franchisees High
10%	6	6	18	30
25%	14	14	42	70
33%	18	18	36	90

3. Expansion of Existing Philippine Franchises

The study team assumed that existing U.S.-based franchises in the Philippines would be eligible to utilize the USAID loan guarantee program. These franchises may have a few Filipino franchisees, or may have a Filipino master licensee using the franchise concept or operating company-owned stores. To predict loan utilization rates, each master licensee and each franchisee is expected to use the USAID loan guarantee, if available. This assumption is based generally on the lack of capital available for entrepreneurs, and more specifically, on discussions with Filipino business owners. (A discussion of Philippine financing available to franchises follows this section.)

To predict possible utilization of the guarantee facility in cases involving expansion of existing franchises, the study team adopted a different methodology than that applied to new franchises. Because information was more readily available from the management of existing Philippine franchises, the team was able to make more accurate forecasts of potential growth rates for the next three years.

The study team focused on three franchises known to be interested in the USAID program: (1) Wendy's; (2) 7-11 Convenience Stores (Southland Corporation); and (3) Dunkin' Donuts.

Wendy's has 22 locations currently in Metro Manila, and is planning to add 5 outlets in the near future. 7-11 has 35 locations in Metro Manila, and is planning to expand into 11 new locations in the provinces. Dunkin' Donuts, which currently operates dozens of locations in the Philippines, offers an inexpensive product suited to numerous outlets serving an area of only a few square miles. As with new franchises, a conservative approach would predict up to 5 new outlets during the next 3 years.

The anticipated expansion of existing franchises is:

Expansion of Existing Philippine Franchises

Wendy's	5
7-11	11
Dunkin Donut	5
Total	21

4. Average Franchise Cost

The study team next determined the average cost to open a franchise for each of the targeted industries. This information was calculated from estimates provided by the franchisors themselves in the I.F.A. Franchising Guidebook. Readers should note several caveats for these cost estimates:

- The cost estimates are provided by the franchisors, and their accuracy has not been independently verified.

- Cost estimates used in the study represent mean averages of the range of costs usually provided by the franchisors. No separate data are available for international start-up costs.

- In most franchising industries only a few franchises, or in some cases just one franchise, are considered a prospect for the Philippines. Overall estimates of loan utilization in industries with just a few U.S. franchisors are tentative at best.

- No firm cost estimates are available for the purchase of an international master license. Based upon its knowledge of the industry, however, the study team assumed that each licensee would request $250,000, the maximum amount available under the current program limits.

A full listing of the franchises and their average start-up cost is included in Appendix D.

5. Predicted Investment in New and Expanded Franchises

a. Investment in New Franchises

Using the average cost for all targeted industries, the following scenarios can be predicted for utilization of the USAID loan guarantees:

Market Penetration	Master Licensees	Franchisees Low	Franchisees High
10%	$1,500,000	$2,826,000	$4,710,000
25%	$3,500,000	$6,594,000	$10,990,000
33%	$4,500,000	$5,652,000	$14,130,000

This approach predicts a total investment in new franchises ranging from $4,326,000 for 6 new master licensees with 18 franchisees, to a high of $18,630,000 invested in 18 master licensees with 90 franchisees.

b. Investment in Franchise Expansion

The three franchises with known expansion plans, Wendy's, 7-11 Convenience Stores, and Dunkin' Donuts, would generate the following investment in new outlets:

Investment in Franchise Expansion	
Franchise	Investment
Wendy's	$1,375,000
7-11	$ 671,000
Dunkin Donut	$ 875,000
Total	$2,921,000

6. Loan Demand

To predict loan utilization rates, each master licensee and each franchisee is expected to use the USAID loan guarantee, if available. This assumption is based generally on the lack of capital available for entrepreneurs, and specifically on discussions with Filipino business owners.

The combined investment for new master licenses, new franchises and expansion of existing franchises is predicted to be:

Combined Investment
Master Licenses, New Franchises and Expansion of Existing Franchises

Market Penetration	Expansion Low	Expansion Hi
10%	7,247,000	9,131,000
25%	13,015,000	17,411,000
33%	13,073,000	21,551,000

Total investment is predicted to range from a low of $7.2 million, to a high of $21.5 million in new and expanded franchises over the next 3 years. Loan utilization will likely be lower, because of equity participation requirements on the part of franchisees. With an equity contribution of 20%, total lending to new and expanded franchises would range between $2.8 million and $8.6 million. At the level of 25% market penetration, between $5.2 million and $6.98 million in additional loan guarantees will be utilized.

B. FRANCHISE FINANCING IN THE PHILIPPINES

A number of the Philippine franchisors who were interviewed for this study indicated that, until now, they have financed their own investments in franchise locations. Many master licensees or "master franchisees" operate their franchise locations as company-owned stores. Both Wendy's and 7-11 Convenience Stores are operated by the master licensee. These outlets use full time employees as managers, and are not re-sold as franchises to local entrepreneurs. Thus, no separate financing is needed for the individual franchisees.

This lack of need for outside financing, however, may soon change. As noted in Chapter II, the Philippine parent holding company, which owns master franchises for Wendy's and 7-11 Convenience Stores, now plans to sell individual franchises as a means to expand into the provinces. This expansion will mark the company's first use of local owner-operator franchisees to expand its franchise network. In particular, former Senator Paterno, now a member of senior management for the Philippine master franchisor, indicated that owner-operators as franchisees will provide stronger, more profitable, local operations.

Other Philippine master franchisors indicated similar improvements when they switched to the true franchise method, using local investors as local managers. Indeed, some noted that their U.S. partners had indicated dissatisfaction with the use of "silent partners," who have no active daily role in operation of the franchise, as investors. The lesson has been repeatedly learned that franchising as a business concept is successful *because* of its heavy reliance on local entrepreneurs. All of these existing franchises voiced a strong interest in using the USAID loan guarantees to assist in financing their expansion into areas outside of Manila.

At present, financing is typically provided by the master licensee through a parent company which owns the real estate or arranges leases for individual locations. These larger operations receive financial assistance and service from Philippine banks in a traditional manner.

1. Banking Community Participation

In keeping with traditional banking approaches, most business lending is asset-based. Real estate, and in some cases equipment and fixtures, serve as collateral for 100% (or more) of any business borrowing. Our interviews indicate that the local chain of Jollibee uses similar arrangements.

None of the banks interviewed for this study are currently active in franchise financing, although several banks do have master licensees as customers. These customers, however, are handled as routine commercial accounts. None of banks interviewed were making loans to franchising projects.

The following additional points were made during discussions with several Philippine banks:

- Because of an uncertain market, some banks are concerned that the associated fees will outweigh the value of the franchising program to the bank in the early years.

- Bank officials suggested that USAID sponsor a trade mission in the Philippines during the first year of the franchising program to introduce investment opportunities, and to stimulate interest in the program as a prelude to making any firm commitments. In the second year of the program, the banks would consider increasing their participation, and reviewing opportunities in the "second tier" industries (those ranked with "good" prospects in this study). In the third year of the program, full implementation would be undertaken.

- All banks favored creation of a Philippine franchising association to assist in promoting the program. Such an association would be valuable in organizing seminars for the banking community and its prospective customers in the franchising industry.

- Managers at one bank rely on their international group to assess the credit worthiness of overseas companies, and would be prepared to use the same approach with U.S. franchisors.

- A strong concern was raised regarding the current A.I.D. limit on asset size of the guaranteed borrower (U.S. $200,000).

2. USAID Loan Guarantee Facilities

The current USAID Loan Guarantee Facility in the Philippines is operated by nine (9) banks, offering $13,486,000 in total loan guarantee authority. Appendix E contains a listing of the approved banks, their total authorization, and current utilization levels as of June 30, 1992.

Four banks, Bank of the Philippine Islands, Metrobank, P.C.I.B. and Far East Bank, have loan guarantee facilities under an older program of revolving loan funds provided by the U.S. government. These loan guarantees have been either entirely used or have been withdrawn (de-obligated), and are no longer available to prospective borrowers.

The Far East Bank has also fully utilized a loan guarantee project in the amount of $2,000,000.

The remaining un-used loan guarantee authority as of June 30, 1992 was $6,697,640. Since that date, an additional $1,400,000 has been withdrawn (de-obligated) from the Bank of the Philippine Islands. This leaves approximately $5.3 million available for all USAID loan guarantees, including the Franchising Program.

The study team has predicted that an active franchising program could utilize between $7.2 million and $21.5 million in total financing. With 50% loan guarantee limits, this would require a range of guarantees between $3.6 million and $10.7 million. At a "median" market penetration of 25% for new franchises coming to the Philippines, a total investment of between $13 million and $17.4 million would be required.

Loan utilization will likely be lower, because of equity participation requirements on the part of franchisees. With an equity contribution of 20%, total lending to new and expanded franchises would range between $2.8 million and $8.6 million. At the level of 25% market penetration, only $5.2 million in additional loan guarantees would be utilized.

This level of new guarantee utilization is well within the existing authority amounts. Only at the upper range of expected growth (33% market penetration and the maximum number of franchisees and outlets) does the required loan guarantee authority exceed existing availability.

CHAPTER IV

IMPROVING AND MARKETING THE FRANCHISING LOAN GUARANTEE FACILITY

The primary goal of the Private Sector Investment Program of USAID is to promote private enterprise in developing countries as a means of facilitating sustainable economic growth. The Program provides U.S. government-backed loan guarantees through intermediary financial institutions, and makes those guarantees available to a wide range of businesses. The Franchising Guarantee Program is one of several global loan guarantee programs administered by USAID's Bureau for Private Enterprise, Office of Investment (PRE/I) in Washington, D.C.

The study team explored several ways to improve and market the Franchising Guarantee Program for the Philippines. Like any financial instrument, loan guarantees must be tailored to the local market. To ensure utilization, the guarantee program needs to be explained to both the individual Filipino business owners and the bank lending officers. Equally important, because franchising is not an active current market for Filipino bankers, the franchise industry itself must be introduced to, and promoted among, the banking community.

A. SUGGESTED IMPROVEMENTS TO THE GUARANTEE FACILITY

As noted in Chapter III, the current USAID Loan Guarantee Facility in the Philippines offers $13,486,000 in total loan guarantee authority. Four banks, Bank of the Philippine Islands, Metrobank, P.C.I.B. and Far East Bank, have loan guarantee facilities under an older program of revolving loan funds provided by the U.S. government. These "old-style" loan guarantees have either been entirely used or withdrawn (de-obligated), and are no longer available to prospective borrowers. The Far East Bank has also fully utilized a loan guarantee facility in the amount of $2,000,000. After subtracting the amount of de-obligated loan guarantee authority, approximately $5.3 million is available for all USAID Philippine loan guarantees, including the Franchising Program.

1. Provide Training for Intermediary Financial Institutions

A critical element in the success of the USAID loan guarantee programs is the role of the intermediary financial institutions. In particular, A.I.D.'s training for bankers has had several important achievements in recent years. The study team strongly recommends a training program for Philippine bankers, focused on the lending requirements of the franchising industry.

The study team discussed the options for a training program with the Philippine banks, the Philippine Chamber of Commerce and Industry, the U.S. Embassy representative for economic development, and the U.S. Foreign Commercial Service. The consensus of those interviewed was that a modest training program, widely publicized and marketed, could have a very beneficial impact on U.S. franchising efforts in the Philippines.

A properly designed franchise lending training program would have a number of benefits, including:

- Bringing new borrowers into formal channels for the first time.
- Increasing the number and size of loans to medium and small scale enterprises.
- Increasing lending in rural areas.
- Enhancing competitiveness of the Philippine banking market.
- Bank managements will receive training in cash flow analysis rather than collateral analysis as a basis of credit decisions.
- Reducing collateral requirements previously used for franchises.

A training program could be designed to assist bankers in better understanding both franchising as an industry, and franchise financing, including the USAID loan guarantee program. Such a training program could include presentations from USAID, other financial institutions which have successfully developed markets in franchising (including a number of Canadian banks), and international franchising associations (including those in the Asian region).

2. Review Loan Guarantee Facility Administration

Additional concerns were expressed by some bank officials about the complexity of the administration of the current program. In particular, the terms and conditions of the loan guarantees were considered by some to be complex and difficult to read. While legal advice is available to senior bankers, many do not actively work to understand and promote the program because of its complex regulations. USAID/Washington may wish to review the standard terms and conditions with the bankers at a training program.

3. Monitor Loan Guarantee Limits

The study team has predicted that an active franchising program could utilize between $7.2 million and $21.5 million in total financing. With 50% loan guarantee limits, this would require a level of guarantees ranging between $3.6 million and $10.7 million. At a "median" market penetration of 25% for new franchises coming to the Philippines, a total investment of between $13 million and $17.4 million would be made, requiring loan guarantees of between $6.5 million and $8.7 million.

Loan utilization will necessarily be lower, because of equity participation on the part of franchisees. With an equity contribution of 20%, total lending to new and expanded franchises would range between $2.8 million and $8.6 million. At the level of 25% market penetration, at most only $6.7 million in additional loan guarantees will be utilized.

This level of new guarantee utilization is well within the existing authority amounts. Only at the upper range of expected growth (33% market penetration and the maximum number of franchisees and outlets) does the required loan guarantee authority exceed existing availability. For this reason, the study team believes that no changes in the available amounts of guarantee facility are required at this time.

Additional guarantee authority may be extended when the existing banks are certain that currently available guarantees will be used by other, non-franchising, businesses. Because of the expected 3-year growth pattern of new franchising in the Philippines, USAID will have sufficient time to monitor utilization rates, and to provide extended guarantee facilities as needed.

4. Loan Guarantee Limits

The current loan guarantee program limits available facilities to 20% of the assets in the USAID revolving loan fund to any one A.I.D.- assisted country. Currently, that limit is $20 million for the Philippines. In addition, no more than $3 million may be made available to any one financial institution. These limits will not restrict the expansion of loan guarantees in the Philippines to meet the increased demand from franchising.

USAID loan guarantees are also limited to "small business enterprises," defined for the Philippines as businesses with fixed assets of less than $200,000, exclusive of land and buildings. Because master franchisors tend to be larger, more financially developed, businesses, USAID may wish to review the need to raise this limit in selected cases. No increase in the asset limitation should be necessary for individual owner-operator franchisees.

B. MARKETING THE LOAN GUARANTEE PROGRAM

The available loan guarantees will be utilized only if bankers and customers know of their existence and, are convinced of the benefits of loan guarantees to the expansion of their respective businesses. For this reason, the program must be marketed to these two distinct market segments.

To attend to these different markets, the study team considered the following approaches:

- Use the banks to market the facility to their current and prospective customers, using loan officers, seminars and traditional published collateral materials.
- Use USAID personnel to talk about the program with local chambers of commerce, American Chambers of Commerce Abroad, Rotary Clubs, and similar groups.
- Design a special marketing program requiring an allocation of time from USAID/Manila or Washington.

- Assist in organizing a new group or association, which could market the guarantee facility and provide future assistance to franchisors and local franchisees, to promote franchising in the Philippines.

Bankers and business owners had mixed opinions on what would constitute the best approach. On the one hand, several bank officials were concerned that past experience with local chambers of commerce and Rotary Clubs showed them to be enthusiastic, but to have limited concrete results. On the other hand, most bankers exhibited little enthusiasm for marketing a new guarantee facility themselves. At the same time, tight budgets at USAID/Manila limit the availability of staff for development and implementation of new projects.

Moreover, some felt that local business owners are sometimes skeptical of programs or information received directly from USAID. This skepticism was evidenced by the bankers attending the Cebu meeting on August 24, and by representatives of P.C.I.B. in Manila. While the bankers each expressed their own appreciation for USAID programs, their opinion was that individual entrepreneurs, particularly in the provinces, are traditionally suspicious of U.S. government programs, and of A.I.D. in particular.

Given these concerns, the study team recommends a combination of the following approaches as a way to promote utilization of the USAID Franchising Loan Guarantee Facility:

1. Promote the Franchising Market Study

Provide copies of Phase I of this marketing study to USAID Manila, for use with local business groups around the Philippines. The I.F.A. has also agreed to assist in distributing copies of the study to its interested members.

2. Conduct a Franchising Training Seminar

Expand the bankers' training seminar (discussed in Section A.1. above) to include Filipino franchisees, franchisors, master licensees and prospective investors. Topics should include franchising as an investment opportunity, U.S. franchising and high potential markets, franchise financing, and the USAID loan guarantee facility. A combined program offered for bankers and their prospective clients would be more cost-effective for USAID, as well.

The Manila based study team believes strongly that presenters to the conference should include local master licensees in the Philippines. These individuals understand the franchising concept, have experience with royalty arrangements, and can share their experiences from a practical perspective. Likewise, prospective U.S. franchisors and representatives of the USAID guarantee program should be included among the presenters.

3. Lead a Study Tour for Prospective U.S. Partners

Consider combining the franchising seminar with a "study tour" for American franchisors to visit the country. The International Franchise Association in Washington, DC has expressed willingness to assist with marketing such a tour to its 2,500 member companies.

4. Establish a Philippine Franchise Association

The study team recommends the creation of a Philippine Franchise Association. The purpose of such a trade group would be to provide information and training to the members, and to give the industry a single voice in important policy issues.

No formal organization exists to represent Philippine franchisors. Informally, business owners and franchisees do meet to discuss problems of regulation, labor training and supplies. Some discussions have been held on whether Filipino franchisors would be willing to join with American franchisors in such an association. These discussions were held with representatives of existing U.S.-based franchisors in the Philippines, and with the Philippine Chamber of Commerce and Industry. Former Senator Paterno was also very responsive to questions about the prospects of an industry association.

A beginning association could include franchisors, franchisees and their suppliers, including attorneys, accountants and other professional service providers. Both Philippine and foreign companies could be members. In time, if the organization grows and interests diverge, sub-groups could be organized separately for franchisors and franchisees, or for suppliers to the industry.

A number of international models exist for such an organization. International franchise associations now exist for Mexico, the U.K., Germany, France, Austria and Hungary. New associations have recently been formed for Indonesia and Thailand, as well. The International Franchise Association located in Washington, D.C. has expressed interest in the concept, and a willingness to provide technical assistance to a newly formed Philippine organization.

The following specific recommendations should be considered if an association is to be formed:

- The association should have a full-time executive assistant from its beginning. The experience of other developing nations indicates that this is the single most important requirement for handling a successful "kick-off" to a new association.

- Membership in the association should be open to franchisors and franchisees.

- The association should affiliate with the I.F.A., and with Asian based associations, including those in Indonesia and Thailand.

The need for full-time assistance early in the development of a new franchising association was cited as the most important requirement for success. Any financial assistance available from USAID should be used to establish a continued professional presence in the Philippines.

Presentation of Phase I of this market study would initiate interest in franchising in the Philippines and in the I.F.A. Presented together, a training conference, study tour and new Philippine franchising association will have a significant impact on the future success of U.S. franchising in the Philippines.

APPENDIX A

SUMMARY RANKINGS OF 35 FRANCHISING INDUSTRIES IN THE PHILIPPINES

APPENDIX A

SUMMARY RANKINGS OF 35 FRANCHISING INDUSTRIES IN THE PHILIPPINES

No.	Franchising Industry	Market Rating	Market Size Ranking (1)	Profit Ranking	Filipino Investor Interest	USAID Program Status	Philippine Target List
1	Food & Beverages	Excellent	1	1	First	Apprv'd	Yes
2	Clothing/Shoes	Poor	5				
3	Cosmetics	Good					Yes (4)
4	Printing	Excellent	12		First	Apprv'd	Yes (3)
5	Educational	Poor	8	5		Pending	
6	Drug Stores	Poor				Pending	
7	Dental Centers	Poor					
8	Hearing Aids	Poor					
9	Health Aids	Good					Yes (2)
10	Optical Products	Fair					
11	Tools/Hardware	Fair					
12	Equipment Rentals	Good					
13	Home Furnishings	Good	11	10		Apprv'd	Yes
14	Children's	Good				Pending	Yes (4)
15	Business Services	Excellent	7	13		Apprv'd	Yes
16	Insurance	Fair	10	9			
17	Real Estate	Fair	6	12	First	Pending	Yes
18	Construction	Fair	3	7	Second		
19	Security Systems	Good			Second		Yes (3)
20	Swimming Pools	Poor					
21	Water Conditioning	Good	13	6	First		

No.	Franchising Industry	Market Rating	Market Size Ranking	Profit Ranking	Filipino Investor Interest	USAID Program Status	Philippine Target List
22	Pet Shops	Poor					
23	Lawn/Garden	Poor					
24	Recreation/Travel	Fair	9	11	First	Apprv'd	
25	Automotive	Good				Pending	Yes
26	Auto/Trailer Rentals	Fair			First	Apprv'd	
27	Employment Services	Fair			Second	Apprv'd	
28	Laundry/ Dry cleaning	Good			First		Yes
29	Maid Services/ Cleaning	Poor					
30	Maintenance	Good			First	Apprv'd	Yes
31	Beauty Salons	Fair				Pending	Yes (2)
32	Hotels/Motels	Fair	4	3	First	Apprv'd	Yes
33	Vending Machines	Poor					
34	Retail -- Misc.	Excellent	2	2			Yes
35	Services -- Misc.	Good			Second		Yes

Note 1: Market and profitability data were available only for the following industrial sectors:

Food & Beverages	Clothing/Shoes	Printing
Educational	Home Furnishings	Business Aids/Services
Insurance	Real Estate	Construction/Remodeling
Water Conditioning	Motels/Hotels	Other Retail
Other Wholesale	Recreation/Entertainment/Travel	

Note 2: Health Services and Cosmetics and Toiletries are combined into one category for the Philippine target list.

Note 3: Printing and Security Services are included with Business Aids and Services.

Note 4: Children's Stores, Furniture and Products are included in Retail -- Miscellaneous.

APPENDIX B

U.S.-BASED FRANCHISORS: AVERAGE START-UP COSTS

APPENDIX B
U.S.-BASED FRANCHISORS:
AVERAGE START-UP COSTS PER INDUSTRY

No.	Target Franchising Industry	Number of Franchisors	Low Average Cost	High Average Cost	Industry Average Cost
1	Business Aids & Services	6	$40,000	$362,000	$161,583
2	Printing	5	109,000	310,000	187,250
3	Food & Beverages	9	125,000	797,000	370,000
4	Retail -- Miscellaneous	4	60,000	600,000	224.250
5	Automotive Products & Service	6	110,000	250,000	159,333
6	Health Aids & Services	3	30,000	60,000	46,667
7	Cosmetics & Toiletries	3	72,500	92,000	81,167
8	Drug Stores	1	94,000	94,000	94,000
9	Home Furnishings	3	14,900	28,000	20,300
10	Hotels and Motels	1	500,000	500,000	500,000
11	Laundry Services & Dry Cleaning	1	196,000	196,000	196,000
12	Maintenance & Cleaning	4	3,900	22,000	13,350
13	Real Estate	3	18,000	35,000	26,333
14	Services -- Miscellaneous (Other Asian Franchisors)	5	15,000	175,000	70,500
15	Water Conditioning	1	25,000	25,000	25,000
	Total	55			

Source: I.F.A. Franchising Handbook, 1992

APPENDIX C

SELECTED I.F.A. MEMBER FRANCHISORS WITH OPERATIONS IN ASIA

APPENDIX C

SELECTED I.F.A. MEMBER FRANCHISORS WITH OPERATIONS IN ASIA

1. Auto/Truck Rentals
    a. Budget Rent a Car (2,975)
    b. Thrifty Rent a Car (770)

2. Auto products/Services
    a. Jiffy Lube (oil change), (875)
    b. Midas International Corp (transmissions, tune-ups, repairs, etc.), (2,453)
    c. Lee Myles transmissions (100)
    d. AAMCO Transmission, Inc. (700)
    e. Meineke Discount Muffler Shops, Inc. (985)

3. Business Aids/Services
    a. Mailing and Packing
        - Mail Boxes Etc. (packaging, mailing, shipping, tax, filing), (1,500)
        - Pak mail Centers of America (250)

    b. Printing
        - AlphaGraphics Printshops of the Future (320 in US + 14 countries)
        - American Speedy Printers (700)
        - Sir Speedy (printing), (900)
        - Kwik Kopy (1,000+)

    c. Executive Office Suites
        - HQ Network Systems, Inc. (81)

4. Children's Services
    a. Gymboree Corp (parent-child development program), (320)

5. Clothing/Shoes
    a. Heel/Sew Quik (alterations), (314 inc. Phil.)

6. Construction: Remodelling/Materials/Services
    a. Worldwide Refinishing Systems (surface refinishing and recoloring), (344)
    b. California Closet Company (90)
    c. Stained Glass Overlay Inc. (347)

7. Convenience Stores
    a. Southland Corp (Seven-Eleven), (3,044)

8. Computer/Electronics
    a. Computerland (800)
    b. Radio Shack (electronics), (2,200)

9. Cosmetics
    a. Aloette Cosmetics Inc. (102)

10. Educational Services
    a. Futurekids (computer educ, 3-12 yrs), (175)

11. Employment Services
    a. Management Recruiters International (535)

12. Food & Beverage
    a. Baked Goods
        - Dunkin' Donuts (2,166)
        - Mister Donut (604)
        - The Original Great American Chocolate Chip Cookie Co. (hundreds)
        - Mrs. Fields Cookies (15)

    b. Candy, Popcorn, Snacks
        - I Can't Believe it's Popcorn (36 distributors)

    c. Ice Cream/Yogurt
        - Baskin Robbins (3,400)
        - Carvel (590)
        - Everything Yogurt and Salad (300)
        - I Can't Believe its Yogurt (400)

    d. Pizza
        - Domino's Pizza Int'l. (3,146 inc. 300 international)
        - Pizza Hut (2,895)

    e. Restaurants
        - Arby's (2,242 inc. Phil.)
        - Burger King (6,400)
        - Dairy Queen (5,308)
        - KFC (5,964)
        - Wendy's (2,440)
        - McDonald's (58 countries)

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f. Potential:
- Blimpie (sub sandwiches and salads), (480)
- Boardwalk Fries (french fries and specialty sandwich take-out), (69)
- Cajun Joe's Premium Chicken (459)
- De Novo Corp. (Tastee Freez - hamburgers, hotdogs, soft-serve ice cream), (500)
- Ho-Lee Chow (Chinese delivery), (110)
- Subway Sandwiches and Salads (5,800)
- New York Fries (sale of fresh cut french fries and softdrinks), (47)
- Restaurant Enterprises Group (192)

13. Health Aids/Services
    a. Drug Stores
    - Health Mart, Inc. (519)
    - Medicap Pharmacies (87)
    - Medicine Shoppe International (900)

    b. Hair Salons/Services
    - City Looks by The Barbers (76)
    - Cost Cutters Family Hair Care (450)

    c. Health Aids
    - Dohlderg Inc. - Miracle Ear (648)

14. Home: Furnishings/Service/Rental
    a. Decorating Den Systems (draperies, floor covering, furniture. carpets, etc.), (1,100)
    b. Mr. Miniblind (70)
    c. Floor Coverings International (235)

15. Laundry/Dry Cleaning
    a. Duraclean USA (277)

16. Maintenance/Cleaning/Sanitation
    a. Professional Carpet Systems (carpet cleaning), (496)
    b. Duraclean Int'l. Inc. (ventilation, dust cleaning, water, smoke, fire, damage restoration, etc.), (633)
    c. Servicemaster Co. L.P. (4,000)
    d. Sparkle Wash (mobile pressure cleaning), (185)

16. Optical Aids
    a. Pearle Vision Center (419)

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17. Real Estate
    a. Century 21 Real Estate Corporation (7,000)
    b. Coldwell Banker (1,414)

18. Water Conditioning
    a. Rainsoft
    (Listed IFA members appear to only provide water softening)

U.S.-based franchisors registered with the DTI-TTR:

1. Dunkin' Donuts
2. Mister Donut
3. Winchells Donuts
4. McDonald's
5. Wendy's
6. Pizza Hut
7. Shakey's
8. Sbarro
9. Kentucky Fried Chicken (KFC)
10. Pollo Locco
11. Avis
12. Hertz
13. Svenson Hair Care
14. Southland Corp. (7-11)

U.S. franchise-related companies not listed in DTI-TTR, operating under other arrangements:

1. Coca-Cola (IFA)
2. Eastman Kodak
3. Firestone Tires
4. Goodyear Tires
5. Valvoline Instant Oil Change
6. Dollar Rent-a-Car
7. Arby's
8. TGI Friday
9. Orange Julius
10. Tupperware
11. Heel Sew/Quik
12. Miracle Ear
13. Citizen's Against Crime

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APPENDIX D

AVERAGE START-UP COSTS FOR SELECTED FRANCHISES IN TARGETED INDUSTRIES

APPENDIX D
AVERAGE START-UP COSTS FOR SELECTED FRANCHISES IN TARGETED INDUSTRIES

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
1.	Food & Beverages				
	Wendy's	$275,000			
	Mrs. Powells		$125,000		
	McDonald's		$610,000		
	Pizza 'nn		$268,000		
	Freshens Yogurt		$180,000		
	I Can't Believe		$200,000		
	TCBY Int'l		$195,000		
	Arby's		$797,000		
	KFC			$680,000	
	Industry Average				$370,000
2.	Printing				
	AlphaGraphics	$310,000			
	Kwik Kopy	$155,000			
	Sir Speedy, Inc.	$175,000			
	Rank Xerox	$267,500			
	Minuteman Press		$109,000		
	Industry Average				$203,300

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
3.	Drug Stores				
	Medicine Shop		$94,000		
	Industry Average				$94,000
4.	Health Aids/Services				
	Callanetics		$30,000		
	Miracle Ear			$60,000	
	Pearle Vision			$50,000	
	Industry Average				$46,667
5.	Home Furnishings				
	Decorating Den	$14,900			
	Mr. Miniblind			$28,000	
	Floor Covering Int'l			$18,000	
	Industry Average				$20,300

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
6.	Business Aids/Services				
	American Fastsigns	$ 90,000			
	MicroAge	$362,000			
	Comprehensive	$ 40,000			
	HQ Centers			$350,000	
	Mail Boxes Etc			$ 75,000	
	Pak Mail Centers			$ 52,500	
	Industry Average				$161,583
7.	Real Estate				
	ERA Real Estate		$35,000		
	Century 21		$18,000		
	Coldwell Banker		$26,000		
	Industry Average				$26,333
8.	Water Conditioning				
	Rainsoft			$25,000	
	Industry Average				$25,000

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
9.	Automotive Products/Services				
	Midas Int'l		$250,000		
	Speedy Oil Change		$185,000		
	Grease Monkey		$133,000		
	AAMCO			$118,000	
	Jiffy Lube			$160,000	
	Lee Myles			$110,000	
	Industry Average				$159,333
10.	Laundry/Dry cleaning				
	Martinizing			$196,000	
	Industry Average				$196,000
11.	Maintenance/Cleaning				
	Duraclean	$3,900			
	Jani-King		$10,000		
	Ceiling Doctor		$17,500		
	Servicemaster		$22,000		
	Industry Average				$13,350

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
12.	Beauty Salons				
	Barbers Hairstyling		$92,000		
	Fantastic Sams		$72,500		
	Industry Average				$82,250
13.	Motels/Hotels				
	Choice Hotels	$500,000			
	Industry Average				$500,000
14.	Other Retail				
	Blockbuster Video			$600,000	
	Aloette Cosmetics			$75,000	
	Gymboree	$60,000			
	Computerland			$162,000	
	Industry Average				$224,250

AVERAGE COST PER FRANCHISE

No.	Targeted Franchising Industry	USAID Approved Franchises	Applicant Franchises	Other Franchise Prospects	Average Industry Cost
15.	Other Asian Franchisors				
	Budget Rent-A-Car			$15,000	
	Thrifty Rent-A-Car			$50,000	
	Heel/Sew Quick			$90,000	
	Worldwide Refinishing			$22,500	
	California Closet			$175,000	
	Average				$70,500
	Total	$2,377,300	$3,330,500	$3,126,500	$8,834,300

Average for All Industries **$163,598**

Source: I.F.A. Franchising Handbook, 1992.

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APPENDIX E

PRIVATE SECTOR INVESTMENT PROGRAM
PHILIPPINE LOAN GUARANTEE FACILITIES

APPENDIX E

PRIVATE SECTOR INVESTMENT PROGRAM
PHILIPPINE LOAN GUARANTEE FACILITIES

FY	BANK	LOAN GUARANTEE AMOUNT	AMOUNT UTILIZED	% UTILIZED
86	Metrobank	$500,000	$500,000	100%
86	Phil.Comm'l Int'l Bank	$2,400,000	$2,400,000	100%
88	Far East Bank (II)	$2,186,000	$2,186,000	100%
86	Bank of Phil. Islands 1/	$2,400,000	$1,000,000	42%
89	SolidBank	$1,000,000	$41,527	4%
90	FEB Leasing & Finance	$500,000	$0	0%
90	Mercator Finance Corp	$500,000	$8,993	2%
90	Phil.Comm'l Int'l Bank	$3,000,000	$104,857	3%
90	Planters Development Bank	$1,000,000	$546,983	55%
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Total	9	$13,486,000	$6,788,360	50%
Available Guarantee Facility		$6,697,640		

NOTES:

1/ The un-utilized portion of the Bank of Philippine Islands facility has been de-obligated and is no longer available.

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