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## **WORLD CAPITAL OF FRANCHISE 2019**

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### **[Greetings]**

Dear friends and colleagues,

First, I would like to thank the Spanish Franchise Association for inviting me to this event. I am honored to be with all of you here today at the first World Franchise Council in Spain, an event that brings together 47 associations from five continents, and that will make Madrid the world capital of the franchise today and tomorrow.

I would also like to extend my congratulations to the Association for their success in bringing this event to Spain. It shows the leadership that the Association has been carrying out for more than two decades.

### **[2018 data]**

The world of franchising has made extraordinary progress. It has nothing to do with the first Singer machines, which had the first contracts that looked like what we know today as the franchise. It also has nothing to do with the beginning of outsourcing of car sales by General Motors, when it was forced to do so due to antitrust policies. And it looks very different to the McDonalds that



Ray Kroc created after the McDonalds brothers almost went bankrupt.

I firmly believe that the franchise is a key industry for our economy. The 2018 data supports this: the franchise system has grown again for the fifth year in a row.

Every year, more and more companies choose the franchise as a growth formula: while in 2017 there were 1,348 chains, by the end of 2018 there were 1,376, a growth of 2%.

But the expansion of the franchise has been especially noticeable and significant in the employment figures. By the end of 2018 there were more than 290,000 people working in the industry, 5.3% more than the previous year. If we look further back, there are about 60.000 more people employed in the franchise industry today than there were 10 years ago, a growth of nearly 25%. These facts show that the franchise is a successful formula for job and wealth creation in our country. It also shows how the franchise model is able to attract entrepreneurship, talent and creativity. The franchise is a business model that is used in an increasingly diverse set of industries, ranging from travel, food, catering, pharmacy, dietetics, aesthetics, fashion etc.

But the most important aspect of this system is that it is a safe model for entrepreneurs, since the franchisor transfers the knowledge of his business and his market positioning, two key elements that guarantee the success of the business.



## [Society's digital transformation]

The franchise has been successful in large part because it has remained very close to consumers, and has evolved in conjunction with society, adapting to people's needs and new consumption habits. This ability to adapt is now more important than ever. We are currently in the midst of a profound change in our society where the use of technology is being democratized.

Cutting edge technology is no longer just confined to business use, it has become an inseparable companion that we find around us and with whom we interact more and more naturally.

In this new environment, the success or failure of any present or future business project will increasingly depend on its capacity to seize the opportunities created by new technologies such as the Internet of Things or blockchain.

Today's clients are more committed, demanding and informed than ever. They look for a more personalized product, demand new models of consumption and a greater knowledge of the life cycle of the products.

Digital technologies are also altering the way of interacting with customers, enabling new media and channels, and improving the knowledge that companies have of their clients. In turn, clients also have greater knowledge of the companies' products and production processes.



As a result, digitalization and the Internet are now essential for brand design, value creation and building trust between customers and companies. These changes are especially relevant for the franchise industry, since franchises are based on the sharing of information between different companies. This development is not an ephemeral trend but a long-term transformation of our society and, therefore, those companies that do not adapt their processes and products will be doomed to disappear.

The franchise is adjusting to these changes, these technological changes are an opportunity to adjust its business model. In such a changing environment the relationship between the franchisor and franchisee must be as close as possible, in order to adapt to changes quickly and satisfy consumers in a context of very strong competition.

### **[Role of the public sector]**

We believe that the government has an important role to play in helping companies make the transition to the new demands of the Economy. 4.0.

It is of great importance to ensure that our educational programs provide training that enhances the competitiveness of our firms and workers.

Likewise, we must encourage public-private collaboration to come up with policies and strategies that allow the franchise industry to



face its challenges and seize more opportunities. A good example of this public-private collaboration has been the recent creation of the Observatory of Trade 4.0, a forum to analyze the strengths and weaknesses of the commercial sector in its digital transformation. Needless to say, this new think-tank will address the specific issues of the franchise industry. We believe that this initiative can be a starting point for new public policies and projects. The Observatory will include representatives from the government, the main associations and independent experts.

In this new digital economy, we must also collaborate in the fight against counterfeiting, since most illegal sales occur online, not on the streets. Fake goods cause a loss of more than 40,000 jobs in Spain, do not respect environmental policies and puts the health and safety of consumers at risk.

Because these risks are so severe, we launched an awareness campaign about the harmful effects of counterfeiting, and we have also implemented a trademark directive to deal with the problem more effectively. In addition, we have created a working group on counterfeiting, to debate ideas and exchange experiences to address this issue. I know that I can count on the Association for this initiative, since one of the key reasons why it was founded was precisely to combat unfair competition.

Another example of this collaboration has been the signing of the General Protocol of Action between the Spanish Franchise Association and the State Secretariat for Trade. Within this



framework, both parties are committed to collaborate in the promotion of the Spanish franchise, both nationally and internationally. For example, the State Secretariat of Trade has made the commitment to pass on information about public aid programs to the Association.

It is also essential that the Government and private firms work together on eliminating obstacles that hinder the industry's growth, trying to harmonize the legislation of the different levels of government. The work that the Spanish Federation of Municipalities and Provinces (FEMP) is doing represents a great opportunity to advance in this area.

An example of this has been the recent elimination of the franchisors registry. The registry had serious problems of efficiency and functioning, which led us to reconsider its continuity. After we analyzed the market conditions, the efficiency of these tools and the maintenance costs, we decided to eliminate it. This means a significant amount of savings both for the government and for the franchises, approximately 1.4 million euros per year.

It is also very important that our franchises reach new international markets. The Spanish franchise has an increasingly global presence. And you know that you have the support of ICEX and the foreign trade offices to help you better understand the markets and the requirements to successfully tackle your foreign expansion.



Likewise, Spain has important strengths to attract investment from foreign franchises. Our location allows access to a European market with more than 500 million consumers. In addition, Spain has a good business environment and provides legal security, which makes Spain an ideal place to invest, as evidenced by the fact that last year we received nearly 40 billion euros in net investment. That places us among the top ten recipient countries of foreign investment in the world.

### **[Closing statement]**

In conclusion, I am convinced that this conference is a wonderful opportunity to share ideas that will help us strengthen the franchise industry in Spain even more.

I want to remind you that in this process of active listening that we are carrying out, you will always have the Ministry's door open. We are eager to hear your needs, concerns, projects and ideas so that we can work together on making sure this wonderful industry continues to thrive.

Thank you very much again for your invitation.