

# The International business environments of franchising in Morocco

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## Abstract

**Background/Objectives:** This paper aims to analyze the environment of franchising in Morocco, by studying the determinants of attractiveness for foreign brands and factors of success in this market.

**Methods/Statistical analysis :** We propose a SWOT analysis (strengths / weaknesses and threats / opportunities) to examine the franchising environment in relation to five environmental factors: economic, demographic, political, legal and cultural.

**Findings:** The results of the SWOT analysis illustrate that the business environment in Morocco has strengths and significant opportunities for the development of the franchise. So Morocco is characterized by attractive geographical position, liberal and stable economic system, favorable regulatory environment and important political freedom. Also, Moroccan market present a several opportunities: large market size, strong demand for international quality products, strong demand for western product, low local competition, large urban population, large and dynamic workforce and high protection of industrial property.

**Improvements/Applications :** Morocco must adopt strategies to promote the franchising sector and benefit from there advantages, especially, contributing to the modernization of commercial sector, improving the quality of distribution channels, creating jobs, contribute to creating the national GDP, encouraging domestic investment and entrepreneurship.

**Keywords:** International franchising, economic development, territorial attractiveness, market size.

## 1. Introduction

In recent years, the international franchising has grown significantly in emerging markets, because of both push and pull factors, in the one hand, domestic saturation, increased competition and diminishing profits at home have pushed franchisors to examine their opportunities in a foreign country, in the other hand, the favorable macroeconomic, demographic and political conditions abroad pulled them into specific markets. So, international franchisors have begun to search for development opportunities in emerging markets.

Franchising in emerging markets seemed particularly interesting to study, because its present a lot of opportunities to international franchisors, however, 80 percent of the world's population lives in emerging markets, and over 75 percent of the expected growth in the world's trade over the next two decades will come from emerging markets [1].

Also, Morocco's large population, high economic stabilization and rapid economic growth have encouraged an increasing number of foreign franchisors to expand into Morocco. This exploratory work attempts to shed light on the following questions:

- What is the attractiveness of Morocco for foreign brands?
- What is the importance of located foreign networks?
- How the international franchising contributes to Moroccan economic development?

So, this paper aims to analyze the business environment of franchising in Morocco, by studying the determinants and factors of success in this market, we propose a SWOT analysis to study the country's franchising environment, in relation to five environmental factors: economic, demographic, political, cultural and legal environment.

## 2. Materials and Methods

### 2.1 Methods

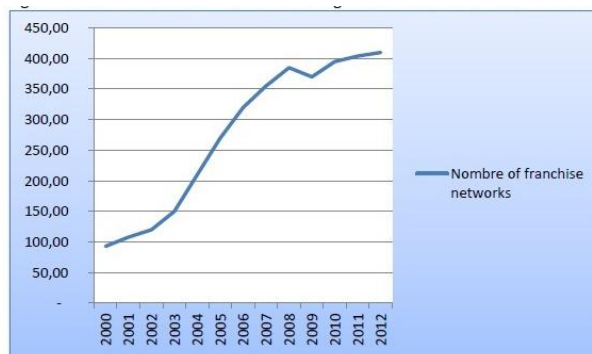
To realize the SWOT analysis, based on macroeconomic data of Morocco provided by international institutions from 2000 to 2012, implies to identify the strengths/opportunities and weaknesses/ threats which Moroccan economy present to international franchisors.

### 2.2 Statistical study of franchising in Morocco

The statistics provided by the Moroccan Ministry of Commerce show that the franchise has been exercised in Morocco since 1990 and reflect an undeniable growth. In 1997, Moroccan Economy identifies 42 franchise networks with 174 outlets, while in 2001 this form of trade has experienced exponential growth it reached 93 networks with 480 outlets located mainly in major Moroccan cities, it's an increase of 121%. In 2004, many franchises have introduced, 240 franchise networks with more than 1,000 outlets, it's an increase of 158% [2]. However, in 2012, more than 410 franchise networks are identified, include more than 3653 retail outlets spread across the major cities of Morocco (Casablanca and Rabat) (figure 1).

This sector consists mainly by foreign brands, while domestic brands have only a small proportion.

Figure 1. Evolution of international franchising in Morocco between 2000 and 2012

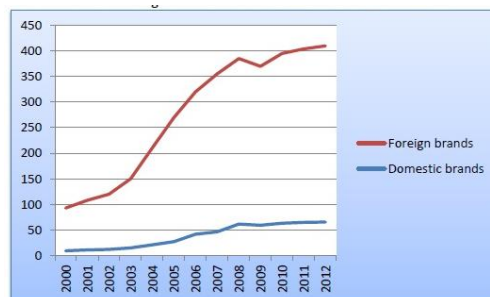


Source: Results of the data analysis

**Foreign brands:** the system of franchising in Morocco is characterized by the predominance of foreign networks that exceed 80% of the existing networks, which France is the main country of origin of the networks located in Morocco with a proportion of 40%, followed by American brands representing 12% of all networks. Italy and Spain occupy the third position with a share estimated at 8% and 7% respectively.

**Domestic brands:** the success of the foreign brands encourages the Moroccan companies to develop their own concept and therefore engage in trade in franchising which Moroccan brands account 16% of all franchise systems implanted in Morocco (figure 2).

Figure 2. Evolution of foreign and domestic brands in Morocco between 2000 and 2012



Source: Results of the data analysis

The franchising is an attractive investment, but success is not always guaranteed, a several franchises are failed (for example Nectar, Subway, Benetton, NafNaf, Tél  Pizza), these failures are mainly due to the difficulties of adapting to the specificities of the Moroccan market and absence of market research. In this context, the Moroccan brands emerge because they have a very important competitive advantage that manifests in the high knowledge of the local market, which facilitates the adaptation of concepts to the demand and needs of Moroccan consumers.

**Sectorial distribution of international franchising in Morocco:** franchises operating in Morocco are concentrated mainly in the clothing sector, with 26% of all the brands, followed by furniture and catering sector representing 7%. The footwear industry and confectionery represent respectively 5% and 3% of all franchise network, and, other activities represent 2%; it grouping: jewelery, lingerie, coffee, Auto-repair, the Institute beauty, fitness center, telephony, education.

**Geographical distribution of international franchising in Morocco:** the spatial distribution of the franchise shows that much of franchise networks located in Morocco focused on two cities (Casablanca-Rabat) which Casablanca alone accounts for 29% of all networks, followed by Rabat in second position with a share of 11%, Marrakech and Fez representing respectively 7% and 5%, Agadir, Meknes and Tangier with parte 4% and Beni Mellal, Kenitra, El Jadida, Sale occupying 2% of all of these networks.

**2.3 The contribution of the international franchising to the Moroccan economy**

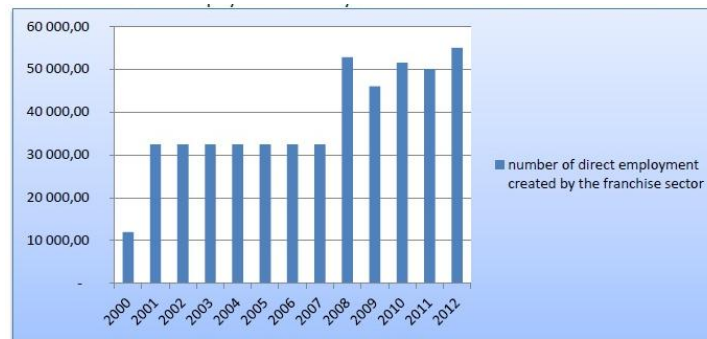
The international franchising contributes actively to economic development, encourage investment, employment and consumption.

**Modernization and reconstruction economic:** the international franchising influences favorably the Moroccan economy, it’s considers as a important factor of economic development and structuring the commercial sector.

**Job creation:** the franchise sector contribute actively to create job, it evolved 12,000 direct jobs in 2000 to more than 55,000 direct employments in 2012. Figure 3 presents an evolution of direct employment created by the franchise sector in Morocco between 2000 and 2012.

**Encourage local investment and create enterprise:** small businesses are the major pillars of the Moroccan economy, representing 98% of the economy. The franchise is a new tool to promoting national small society (SMEs) and stimulating entrepreneurship.

Figure 3. Evolution of direct employment created by the franchise sector in Morocco between 2000 and 2012



Source: Results of the data analysis

**3. Results and Discussion**

In general, international franchisors prefer to enter markets that rank high in attractiveness, low in market risk and where they can enjoy a competitive advantage, so, Moroccan Market combines favorable economic, demographic, political and legal conditions.

**3.1 The economic environment of franchising**

Morocco has several economic forces that attract investment as a franchise, table 1 present main macroeconomics indicators in Morocco from 2000 to 2015 [3, 4].

Table 1 . Main Macro Economic Indicators in Morocco from 2000 to 2015

Indicator	2000	2012	2015
GDP	1276	2902	3092.6
GDP Growth Rate (%)	1.59	2.67	4.38
Inflation (CPI) (%)	1.89	1.28	1.9
Logistics performance index: Quality of trade and transport-related infrastructure	-	3.14	-
The Global Competitiveness Index	-	4.11	4.21
Unemployment, total (% of total labor force)	13.6	9	9.2

**Geographical position:** morocco has a strategic geographical position, characterized by the proximity of Europe, which gives it an important attractiveness for foreign investors.

**Economic liberalization:** integrate into the world economy is a necessary condition for economic growth and a realistic response to the challenge of globalization. Morocco is characterized by a liberal and stable economic system favoring investment, it's characterized by an average degree of economic freedom (the Index of Economic Freedom estimated at 6 in 2012).

**Favorable and modern infrastructure:** for a country whose comparative advantage is related to geography, logistics becomes an important element of this comparative advantage to meet new performance requirements. Morocco is characterized by medium quality of business infrastructure and transport (the Logistics Performance Index estimated at 3.4 in 2012).

**Low Inflation:** inflation reflects the standard of living of citizens, the decline in the inflation rate maintains price stability and preserves the purchasing power of citizens which reinforces the confidence of economic operators and encourages investment. Morocco has a low inflation rate (1.28 percent in 2012).

**International Competitiveness:** morocco is characterized by a medium level of international competitiveness, according to the classification of the International Competitiveness Index (ICI estimated at 4.11 in 2012), it occupies the 70th position.

### 3.2 The demographic environment of franchising

The demographic environment is an important determinant that attractive an internationals franchisors, so a population size, the level of urbanization and female labor participation are a main host country demographic factors from a franchisor attractiveness [5]. Morocco has several demographic forces that attract investment as a franchise, allowing the Moroccan market to be promoter with a great and unsaturated market demand, and providing diversified and varied investment opportunities, table 2 presents an evolution of key demographic information of Morocco from 2000 to 2015.

Table 2 . key demographic information of Morocco from 2000 to 2015

Indicators	2000	2012	2015
Population (Million)	28.7	32.5	32.9
Population Growth Rate (Annual %)	1.18	1.43	4.5%
Surface Area (Million sq. km)	446550	446550	446550
Population density (people per sq. km of land area)	64.33	72.87	73.9
Urban population (% of total)	53.3	57.4	-
Life Expectancy, Male/Female (Years)	68.14	70.64	-
Female Labor Force Participation (%)	51.30	52.00	-
Human Development Index	0.512	0.591	-

**Market Size:** it is an essential determinant of the attractiveness of the international franchises that are highly concentrated in densely populated areas, because the population density provides many benefits consumers and businesses. Morocco is characterized by a large population (estimated at over 32 million inhabitants), a positive and continued population growth (population growth rate estimated to 1.43% in 2012), with a large urban population, estimated to 57.41 percent of the total population 2012 (according to the World Bank 2012).

**High concentration of the population:** major cities are characterized by high urban population (the population of the most populous city in Morocco is 3,375,551 inhabitants which has 18.8 percent of the urban population in 2012 (according to the World Bank 2012).

**Dynamic population:** the Morocco population is characterized by a dynamic population, with 44% of the population are aged under 20 and the population aged 15 to 64 has 67.17 percent of the total population in 2012 (according to the World Bank 2012).

**Important labor force:** a growing labor force, estimated at more than 11.73 million inhabitants in 2012, with significant female labor participation (52% present in 2012). But the unemployment rate is relatively high, estimated at 9 percent in 2012 (according to the World Bank 2012).

**Medium level of Human development:** according to the Human Development Index, Morocco is characterized by a medium level, it occupies 130th position with a score of 0.59 in 2012. But the illiteracy rate remains high (Morocco occupies the 141st position as ranked by the Program United Nations Development Programme).

### 3.3 The political environment of franchising

Obviously political variables influence the investment attractiveness, table 3 presents an evolution of key political information of Morocco from 2000 to 2015 [6, 7].

Table 3. key political information of Morocco from 2000 to 2015

Indicators	2000	2012	2015
Transparency International Corruption Perceptions Index (CPI score)	47	37	-
Freedom Score (Partly Free)	4	4	4.5
Fiscal Freedom	63.0	69.7	70.9
Business Freedom	70.0	77.2	68.8
Labor Freedom	-	27.6	33.4
Trade Freedom	61.0	75.7	78.2
Investment Freedom	70.0	65.0	70.0
Financial Freedom	50.0	60.0	60.0
Property Rights	50.0	40.0	40.0
Economic Freedom (Partly Free)	6.1	6.2	-

**Corruption:** some studies indicate that corruption negatively influences the attractiveness for investors because it increases administrative costs that discourage investment. Others state that investments from a country whose corruption is high and lack of compliance and enforcement are located in similar host country because they are familiar with this kind of environment, and this environment provides low operating costs. Morocco is characterized by a high level of corruption, according to the International corruption index, it occupies the 88th position with a score of 37 points in 2012).

**Political Freedom:** morocco is partly free, what the index of political freedom estimated at 4 in 2012).

**Open markets:** the average tariff rate is 3.4 percent. Tariffs have fallen, but regulatory issues may delay trade. Foreign investors cannot buy agricultural land, and investment in some economic sectors is regulated. The financial system has undergone modernization and expansion. Morocco's banking sector is one of the most liberalized in North Africa. The stock market does not restrict foreign participation.

**Regulatory efficiency:** incorporating a business takes five procedures and less than a week, with no minimum capital required, but completing licensing requirements still takes about three months on average. Labor market rigidity continues to discourage dynamic job growth. In January 2014, the government ended costly gasoline and fuel oil subsidies, but it maintained some food subsidies.

### 3.4 The regulatory and institutional environment of franchising

The quality of the business regulatory environment strongly influences the creation of the company, according to the index of doing business, Morocco occupies the 87th position in 2012.

**Protection of Industrial Property:** the brand is a key element of any franchise agreement, therefore, it is necessary to file for protection against counterfeiting. So, the Trademark Registration can be done in Morocco with the Moroccan Office of Industrial and Commercial Property. In Morocco, the brand is protected by national procedures (Dahir of 23 June 1916, Act of October 4, 1938 and Law 17/97 from 09 March 2000) and international response to Morocco's accession to the Agreement and Protocol of Madrid since October 1999.

**Specific franchising legislation:** to date, Morocco has no specific legislation to the franchise, like the Doubin law in France or Full Disclosure Law in the United States, but this lack of specific legislation does not mean that there is a legal vacuum. The Moroccan Federation of Franchise has adopted a code of conduct, designed to inform the Contracting on the different rules of the franchise and to safeguard their interests, particularly in terms of contractual clauses which must provide details on their obligations.

**The legal framework of the franchise in Morocco:** the franchise like any commercial network is subject to several laws, it is precisely the competition law, trademark law, labor law; regulation on commercial leases.

**The common law of contracts:** the franchise agreement is governed by contract law and essentially Article 230 of the Dahir Contracts and Obligations (DOC) of 12 August 1913, the article states that "contractual obligations validly formed take the place of law for those who made them. " As such, the franchise agreement will be validly filed by the parties' agreement on the essential elements of the bond, as well as all other legal clauses they consider essential, then, the parties are required setting clear obligations in the franchise agreement.

**Peripherals laws:** there are other laws that the common law of contracts influencing the franchise agreement, in fact the establishment of a franchise agreement must comply with the provisions of mainly 06-99 law on freedom of prices and competition by avoiding any prohibited anti-competitive practice and the right of industrial property.

**3.5 The cultural environment of franchising**

Generally, franchisors prefer to invest in home markets whose culture is similar to that of the original market. Also, Morocco is characterized by :

**Multilingualism:** one of the greatest challenges of investing in a foreign market is the language, Morocco is a characterized by a linguistic diversity.

**Cultural Diversity :** morocco is characterized by great cultural diversity

However, the conducted analysis shows a high level of Moroccan’s market attractiveness, so it’s important to dress the SWOT Analysis for franchising in Morocco (Table 4):

*Table 4. SWOT Analysis for Franchising in Morocco*

<b>Strengths :</b>
<ul style="list-style-type: none"> <li>- Attractive geographical position</li> <li>- Liberal and stable economic system</li> <li>- Important degree of international competitiveness</li> <li>- Medium Quality of business infrastructure and transport</li> <li>- Low inflation</li> <li>- Favorable regulatory environment</li> <li>- Important Political freedom</li> <li>- Medium Human Development</li> </ul>
<b>Weaknesses :</b>
<ul style="list-style-type: none"> <li>- High levels of corruption</li> <li>- High illiteracy rate</li> <li>- High unemployment rate</li> <li>- High land costs</li> <li>- Financial obstacles</li> <li>- Medium purchasing power (GDP estimated at 2902\$ US in 2012)</li> </ul>
<b>Opportunities :</b>
<ul style="list-style-type: none"> <li>- Local competition is low, but the sector is dominated by foreign brands</li> <li>- Evolution of consumption: Strong demand for western product</li> <li>- Strong demand for international quality products</li> <li>- Large market size, large and growing population size.</li> <li>- Large urban population</li> <li>- Dynamic population</li> <li>- Large workforce</li> <li>- Important female labor participation</li> <li>- Diversity and multi-lingualism</li> <li>- Protection of industrial property</li> </ul>
<b>Threats :</b>
<ul style="list-style-type: none"> <li>- Absence of a specific franchise legislation</li> <li>- Absence of specific franchise financing</li> </ul>

**Strengths :**

- Attractive geographical position
- Liberal and stable economic system
- Important degree of international competitiveness
- Medium Quality of business infrastructure and transport
- Low inflation
- Favorable regulatory environment
- Important Political freedom
- Medium Human Development

**Weaknesses:**

- High levels of corruption
- High illiteracy rate
- High unemployment rate
- High land costs
- Financial obstacles
- Medium purchasing power (GDP estimated at 2902\$ US in 2012)

**Opportunities:**

- Local competition is low, but the sector is dominated by foreign brands
- Evolution of consumption: Strong demand for western product
- Strong demand for international quality products
- Large market size, large and growing population size.
- Large urban population
- Dynamic population
- Large workforce
- Important female labor participation
- Diversity and multi-lingualism
- Protection of industrial property

**Threats :**

- Absence of a specific franchise legislation
- Absence of specific franchise financing

**4. Conclusion**

In recent year, the franchise is undoubtedly one of the great business success, it has several characteristics that make this formula a real commercial system, it allows to promote the conditions of competitiveness in the commercial sector.

Emerging markets such as Morocco are very attractive because of the investment opportunities which they offer to international franchisors. So, the results of the SWOT analysis illustrate that the business environment in Morocco has strengths and significant opportunities for the development of the franchise.

On the one hand, Morocco is characterized by attractive geographical position, liberal and stable economic system, important degree of international competitiveness, low inflation, favorable regulatory environment and important political freedom, on the other hand, Moroccan market present a several opportunities: large market size, strong demand for international quality products, strong demand for western product, low local competition, large urban population, large and dynamic workforce and high protection of industrial property.

However, Morocco must adopt strategies to promote the franchising sector and benefit from there advantages, especially, this sector contribute to the modernization of commercial sector, improving the quality of distribution channels, creating jobs, contribute to creating the national GDP, encouraging domestic investment and entrepreneurship.

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