



FRANCHISING

A Preferred Mode of Business Expansion

INFONALYSIS

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The gateway to economic prosperity...

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FRANCHISING - A Preferred Mode of Business Expansion

Franchising is one of the preferred modes of business expansion worldwide, and is being employed by more and more businesses in almost every domain.

The concept of Franchising is not new to Pakistan, rather it has undergone incredible growth in Pakistan during the last two decades. Owing to the influx of foreign franchises within the country, Pakistanis have gained substantial exposure to a diverse range of franchises, franchise models, and ways of doing business. An plethora of internationally known brands like McDonald's, KFC, Pizza Hut, Dunkin Donuts, Subway, Papa John's, Domino's, Burger King, Johnny Rockets, Roaster's, Hardee's, Nando's, Levi's and Nike dot the urban landscape of the country, and have become household names. Franchising is one of the preferred modes of business expansion worldwide, and is being employed by more and more businesses in almost every domain.

So what exactly is franchising?

Franchising is a relationship whereby a business (franchisor) grants the use of its trademarks/patents, and proven business methods with clearly defined policies and processes to another business (franchisee) in return for a fee and strategic control of the resulting franchise operations. The franchisee consequently opens clones of the franchisor's business, and runs them with the continual assistance of the franchisor. Franchising offers an attractive option for progressive businesses to expand without incurring high costs and risks (by becoming a franchisor), and a shortcut to aspiring entrepreneurs to start their own business without having to build it from scratch (by becoming a franchisee).

The US leads the world in franchising

Franchising offers an attractive option for progressive businesses to expand, and a shortcut to aspiring entrepreneurs to start their own business.

The world's first known franchise was developed by the Singer Sewing Machine Company in the US in 1851, which set up a service and maintenance system for its machines. General Motors started its franchise in the late 1900's and laid the foundations for a franchised motor dealership network, a model still being widely followed. The soft drinks bottling industry in the US is also credited with early successful franchise formations where the likes of Pepsi, 7-Up, and Coca-Cola, used the concept as an economical way of selling and distributing their brands on a wide scale.

Interestingly, the US still leads the world in franchising; there are more than 3,000 franchise systems in the US, the franchise industry accounts for 40% of all retail sales in the country,¹ and almost 4% of all small businesses in the US

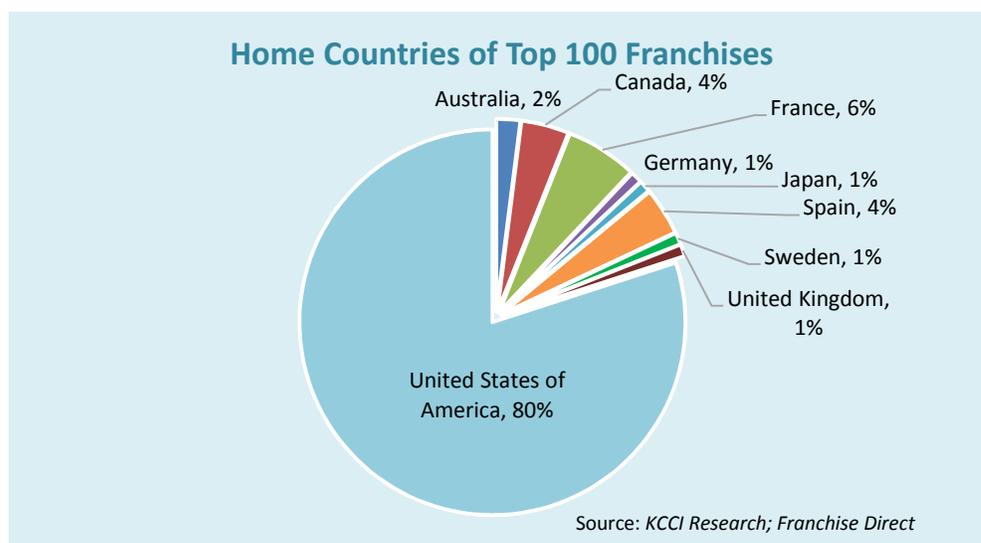
¹ (Bohi, 2010, p.16)

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are franchises². Franchise Direct's³ Top 100 global Franchise Ranking for 2015 has 80 franchises from the US alone and lists 9 US franchises as the top ones in the world.

Top 100 Franchises in the World			
Franchise Name	Rank	Country	Industry
Subway	1	USA	Sandwich & Bagel
McDonald's	2	USA	Fast Food
KFC	3	USA	Chicken
Burger King	4	USA	Fast Food
7 Eleven	5	USA	Convenience Store
Hertz	6	USA	Car Rental & Dealer
Pizza Hut	7	USA	Pizza
Ace Hardware Corporation	8	USA	Home Improvement Retail
Wyndham Hotels and Resorts	9	USA	Hotel
Groupe Casino	10	France	Food & Grocery Retail

Source: KCCI Research; Franchise Direct

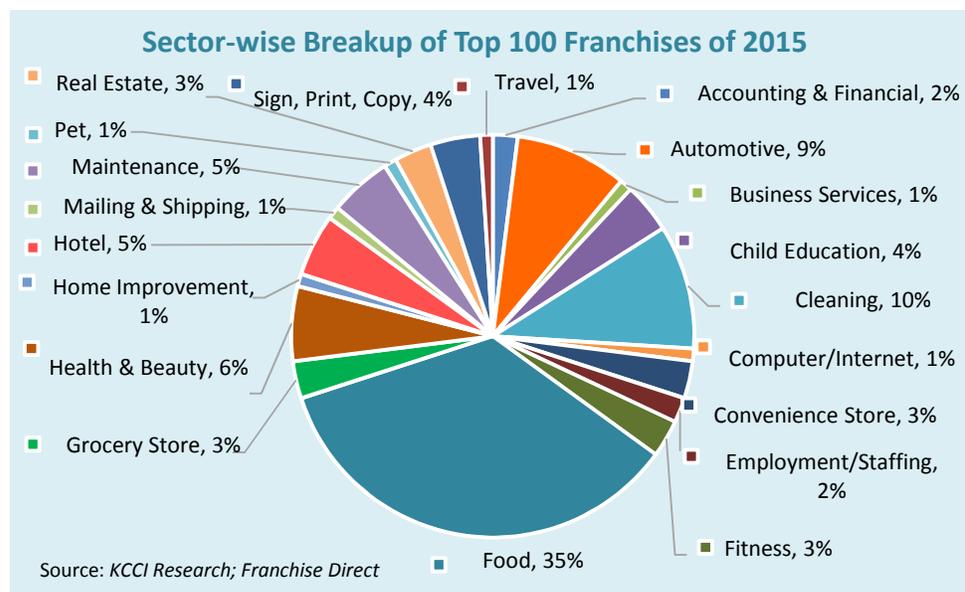


² International Franchise Association (IFA)

³ Franchise Direct is one of the world's leading portals for franchise business opportunities. Its rankings are based upon parameters which include the no. of units a franchise has within and outside the home country, no. of countries where the franchise has expanded, its growth, stability and financial strength amongst others.

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Further, the food sector commands a healthy share of top franchises in the world, followed by the cleaning, automotive and health & beauty sectors.



Franchising in Pakistan – A mix of local and foreign brands

The Pakistan franchise market is a delightful mix of local and foreign brands, specializing in diverse sectors ranging from food to fashion, and from retail to health services. Approximately 65-70 international franchises are successfully operating in Pakistan, with an almost equal number of local franchises to match them. In line with international trends, a large share of the franchise market in Pakistan is dominated by the food business.

The Pakistan Food Association estimates that the annual sales value of internationally franchised food in Pakistan stands at a staggering PKR 15Bn!!!⁴ (another independent study of 25,000 food centers claims that Pakistanis spend PKR 90Bn on eating out at restaurants countrywide every year). Most of foreign food franchises in Pakistan are American companies, which have also been the first ones to enter the local market.

.The annual sales value of internationally franchised food in Pakistan stands at a staggering PKR 15Bn, while Pakistanis are guesstimated to spend PKR 90Bn on eating out at restaurants countrywide every year.

⁴ <http://augmentfranchise.com/franchising-in-pakistan/> (2012 estimates)

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The table below depicts the global rankings of some international franchises operating in Pakistan.

World Rankings of Some Foreign Franchises Active in Pakistan			
Franchise Name	Rank	Country	Industry
Subway	1	USA	Food
McDonald's	2	USA	Food
KFC	3	USA	Food
Burger King	4	USA	Food
Pizza Hut	7	USA	Food
Carrefour (Hyperstar)	13	France	Convenience Store
Dunkin' Donuts	14	USA	Food
Domino's Pizza	17	USA	Food
Marriott International	18	USA	Hotel
Papa John's	24	USA	Food
Hardee's	47	USA	Food
Yogen Fruz	53	Canada	Frozen Yogurt
Johnny Rockets	97	USA	Food

Source: KCCI Research; Franchise Direct

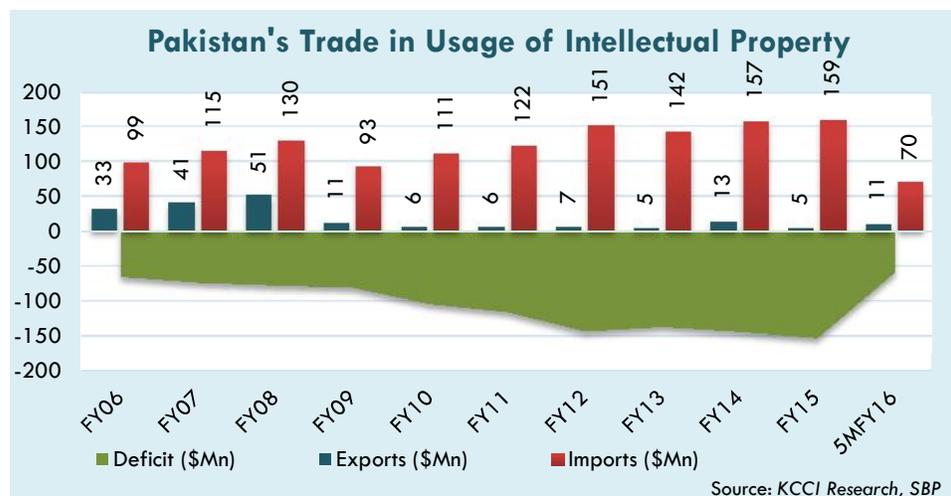
In tandem with the development of foreign brands, Pakistani food brands are also making their mark in both the local and international arenas. To cite a few examples, BarBQ Tonight has expanded to Dubai, Kuala Lumpur and Singapore after setting up restaurants in Lahore and Islamabad. The extent of BarBQ Tonight's success in Singapore can be gauged from the fact that it has won the International Franchisor of the Year Award 2015 awarded by FLA Singapore. Lal Qila Restaurant has opened two outlets in UAE, one each in Dubai and Abu Dhabi, and one each in Lahore and Hyderabad.

BarBQ Tonight's has won the International Franchisor of the Year Award 2015 awarded by FLA Singapore.

United King Bakery, having expanded to 9 locations in Karachi and exporting its packaged products to more than 25 countries, is reportedly thinking of going global too. Student Biryani has multiple outlets in Karachi, Hyderabad, Lahore, UAE, Saudi Arabia, Oman, Canada and Australia. The Gourmet brand has expanded to 95 locations in Lahore and cities nearby in Punjab, while Meat One, specializing in uncooked meat and preparations, has franchises operating in UAE.

The chart below gives a snapshot of Pakistan's exports and imports in terms of usage of Intellectual Property.

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* Under IMF's BPM6 classification, franchising is recorded under Usage of Intellectual Property. Since no franchising figures are explicitly available, we take Usage of Intellectual Property to be a proxy for franchising.

Franchising is not limited to food only

Although franchising is mostly visible in food, its presence is also noticeable in many other sectors like fashion, beauty, wellness, retail, and other services segments. Some of the more popular foreign brands conspicuous in Pakistan include Levi's, Nike, Debenhams, Next, Mothercare, Adidas, Mango and Hyperstar amongst many others, mostly belonging to countries from Europe and the USA.

Notable Pakistani brands that have made their presence felt locally and abroad include Khaadi (UK, Malaysia, UAE), Nishat Linen (UAE, KSA, Canada) Brands Just Pret (UAE), Bareeze (UAE), Junaid Jamshed (UAE), Chen One (UAE, KSA), Ego (UAE, Mauritius, UK) while in the leather and shoes segments, the likes of English Boot House, Stylo, Jafferjees and Hub Leather have yet been limited to the domestic markets in terms of retailing. Many clothing franchises including the likes of Khaadi, Gul Ahmed, Bonanza and Deepak Perwani have long been planning to set up franchises in India subject to improvement in political relations.

Other sectors such as retailing, grocery, educational institutes (Smart School, Educators, Allied), security services, hotels, jewelry, hospitals, clinical laboratories and courier services are also gradually embracing the concept and are tipped to be the key future sectors for franchising. (See annexure for a non-exhaustive listing of Pakistani franchises operating in the domestic market). The franchise model is operating successfully in the telecom sector

Many clothing franchises including the likes of Khaadi, Gul Ahmed, Bonanza and Deepak Perwani have long been planning to set up franchises in India.

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too in Pakistan, as can be seen in the case of mobile service providers like Telenor, Mobilink etc.

Pakistanis have high potential to craft own franchises

If foreign brands can see the potential in this market, Pakistani entrepreneurs too can tap into the opportunities presented by the increasing appetite of the up end market segment for branded products.

The brands listed above are just a small portion of what Pakistani brands and products have to offer nationwide and globally. Pakistan, due to an abundance of talent, a rich culture and history, and an ever expanding pool of local entrepreneurs, has the potential to craft many more international level brands. The true potential of Pakistani products is way higher than what we are seeing. Why businesses in Pakistan have not replicated the successful franchising models of foreign brand to create their own franchises locally and abroad. If the above-mentioned names have ventured successfully outside Pakistan and have created a name for themselves in the international arena, what is hindering others from following suit?

If many brands have ventured successfully outside Pakistan and have created a name for themselves in the international arena, what is hindering others from following suit?

Surely, if foreign brands can see the potential in this market and introduce alien concepts and brands here, Pakistani entrepreneurs too can definitely tap into the opportunities presented by the increasing appetite of the up end market segment for branded products. Franchising offers tremendous business opportunities for entrepreneurs planning to expand their business both internationally and locally, but are in need of reliable partners or capital.

Time to expand the vision beyond the family business

The penchant of established businesses to remain solo and not getting out of the family business mentality are major hurdles in expansion of the franchise model within Pakistan.

The penchant of established businesses to remain solo and not getting out of the family business mentality are major hurdles in expansion of the franchise model within Pakistan. Pakistan is home to many well-known names in food and confectionary who have served their delicacies to many generations. Yet, they have been shying away from expanding their business through franchising for one reason or the other.

One of the often quoted reason for not venturing into franchising is the fear of the food recipes being stolen by the franchisee, and hence the divulgence of the closely guarded family secret. But this fear can be largely alleviated through centrally packaging the right combination of the required spices in the form of a pre-mix, and then dispatching it to all franchised outlets for onward preparation of the final product, as being done by Student Biryani.⁵

⁵ <http://tribune.com.pk/story/298555/by-word-of-mouth-student-biryani-goes-global/>

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This also ensures consistency in taste across all outlets while many franchisors also focus on controlling the supply chain, so that the same quality of food is available at all locations.

The lack of a proper regulatory framework, government support, limited awareness of the technical aspects of franchising and the complexities in arranging financing from banks are other main reason inhibiting the spread of the franchising concept.

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However, once the concept of being a franchisor sets in within the domestic ecosystem, financial institutions can come into play more actively for financing of franchise expansion activities. Pakistan's credit system too needs to be able to accommodate budding entrepreneurial talent. Govt.'s easy credit schemes can play a major role here by including franchising business options within their ambit.

A concept which is here to stay

Market trends divulge that formation of a strong brand and developing it into a franchise is a concept which is here to stay. A continuously emerging middle class, increasing brand awareness amongst consumers and the global exposure of affluent youth to emerging trends, while at the same time an increasing propensity to shop and eat-out amongst the population makes the whole franchising concept very lucrative. At the same time a pool of emerging qualified entrepreneurs and business graduates with sufficient liquidity at their disposal is opting to start their own ventures, either because of lack of job opportunities or out of the sheer urge to set up one's own business.

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Franchising creates new jobs and aids economic development. Confluence of interests of a franchisee who may have insight of a market with that of a franchisor having a sound business, a wealth of experience, technology orientation and entrepreneurial skills makes a perfect match. But though it sounds lucrative, it is not so simple and involves a lot of thinking and hard work to make a successful franchise.

Does your business fall into any of these?

Internationally, franchises fall into the below broad categories:

Job Franchise: Mostly a self-employed one person operation, often mobile, and covering domains like cleaning, mechanic services, or craft or skill related.

Sales & Distribution Franchise: Selling and distributing products or services

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in a region.

Management Franchise: Controlling and managing a region with a team of skilled or semi-skilled staff.

Retail Franchise: Selling the franchisor's products or services by acquiring premises and customizing it to the franchisor's specification, then hiring and training staff, all the while following the franchisor's strict guidelines.

Food & Beverage Franchises: Similar to a retail franchise but limited to food and beverages.

Investment Franchise: Mostly relates to the hoteling industry whereby the franchisee oversees the overall strategic management while hiring others to run the franchise outlet on a day to day basis.

Choose from any of these franchise models

In order to decide how to franchise the business, several franchising models are available to choose from, depending on the nature of the franchise system, the location and the overall business acumen:

Franchising enables a business to enhance its outreach in the quickest possible time and with minimal funds.

Direct Franchising: Is the purest form of franchising under which the franchisor grants the franchisee the right to open one franchised business at one location.

Area Development: The franchisor grants the franchisee the exclusive right to open and operate several franchised businesses within a much broader geographic territory.

Master Franchising: Is similar to area development in that the franchisee is granted the right to sub- franchise in a wide territory. This model is typically employed by franchisors expanding internationally so that the franchisee can expand the system in areas unfamiliar to the franchisor.

Master Franchising is typically employed by franchisors expanding internationally.

Joint Venture Franchise: The franchisor also takes a financial stake in the project; the model is more common in international Franchise Agreements.

Franchising incorporates a whole set of benefits

From a franchisor's perspective, franchising is an effective way to raise capital by utilizing other's capital to expand your business. It enables a business to enhance its outreach in the quickest possible time and with minimal funds. Apart from these, other benefits of franchising to the franchisor include:

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The franchisor is also entitled to a share from the annual revenue or profitability of the franchisee as royalty (common royalty in Pakistan is 5-10% of annual revenue).

Minimal investment risks / Steady source of revenue

A franchisor is entitled to an upfront payment from the franchisee as franchising fee. The franchisor is also entitled to a share from the annual revenue or profitability of the franchisee on a recurrent basis as royalty (common royalty in Pakistan is 5-10% of annual revenue). This arrangement thus transfers all the risks and costs of the investment to the franchisee while ensuring a significant share in the income from the business, provided that the business model and product offering is successful.

Simple management structure

The interests of both the franchisor and franchisee are closely intertwined with the success of both depending upon each other. Yet, the franchisor mostly needs to be concerned with the strategic level working and periodic performance measures of the franchise and leave the day to day workings to the franchisee. The onus of the operational management of the franchise rests with the franchisee who is mandated to adhere to the Standard Operating Procedures (SOP) provided by the franchisor resulting in a simplistic management structure.

Franchising enables a business to enhance its outreach in the quickest possible time and with minimal funds.

Rapid growth with bargaining power

Not having to invest one's own capital, and not being involved in the operational management of every additional unit allows the franchisor to expand his franchise more rapidly than a self-managed network would allow him to. Quick and sustained expansion results in more sales in lesser time, also offering the franchisor higher bargaining power with vendors. The only major ingredient in a successful franchise is to have a business that can be easily duplicated across franchise units while maintaining the same product and service quality.

Deeper market penetration and absorption

As the franchisee is usually local to the franchise area, he is well aware of the culture, preferences, likes and dislikes and specific needs of the local population. This is a huge advantage for effectively penetrating a new market, and for easily getting the product absorbed within the market.

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Great level of commitment by the franchisee

By putting his own money in the franchise, the franchisee tends to put his mind, heart and soul in the business to succeed. The level of commitment is high, as is the level of intensity and energy, which is contagious. Franchisees

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begin to see the franchise brand as their own and take pride in associating themselves with it. However, the franchisor needs to have an eye for selecting the right franchisee having a high level of commitment and enthusiasm. The franchisee should have the drive, the acumen and the resources to follow, run and build the business.

International Expansion

Franchising offers the most viable and cost effective route for a local franchise to expand into the international market. By employing a master franchising model, a budding franchisor can reproduce his local franchise model to a foreign country, and entrust his master franchisee there to tailor the business to the specifics of that particular market. However, the success here lies in immaculate planning, appropriate choice of a target market which can quickly yield a healthy return, and the discovery of a suitable master franchisee who can carry the franchise on his own. But before embarking on an international journey, it is critical that the franchise brand gains a strong foothold in its own local market.

Franchising carries inherent risks too!!

Franchising, in line with any business expansion, does carry inherent risks that could cause the franchise to fail. Such perils can emanate due to lack of quality control leading to poor product or service quality, non-existent innovation, sluggish marketing or inadequate commitment and interest on part of either the franchisor or franchisee. However such risks can be mitigated by planning well in advance and carefully catering to such threats well in time. Nonetheless, the budding franchisor is advised to bear in mind that:

Franchising is a completely new business: Creating a franchise network and providing on-going support to it is a completely different ball-game from independently running the core business. In fact, it is like creating an altogether new business which requires renewed devotion and high levels of commitment.

Quality Control is a must: It is often difficult to control the activities of the franchisees and to consistently ensure that the product or service quality is conforming to standards. Failure of the franchisee to fully absorb the vision and values of the franchisor and non-conformance to quality benchmarks of the franchisor leading to a fall in product quality would tantamount to tarnishing the image of the franchise brand and hit customer loyalty. The

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franchisor needs to cater to such issues by keeping a strict check on each franchisee operations and by centrally controlling the supply chain.

Innovation can be daunting: Expanding and altering the product range requires the franchisor to negotiate and sell the idea to all franchisees, and effectively becomes much complicated as compared to handling the own managed business.

Strong documentation is key to a sustainable partnership

A strong partnership between the franchisor and the franchisee is a core requirement for a franchise to function properly, and in this context, the partnership should begin with a clear understanding of all underlying issues. Here is where the Franchise Agreement comes in; the Franchise Agreement governs the terms and conditions, limitations, benefits and other finer details of the franchising relationship between the franchisor and franchisee and is crucial to a long term and mutually beneficial partnership. Ms. Anila Haq, President Francorp Pakistan, laments that the biggest problem with franchising in Pakistan is that documentation needs are not clearly understood. As franchising laws have not yet been made in Pakistan, there are no clear cut rules and hence, she stresses, due focus must be given to make the Franchise Agreement as all-encompassing as possible.

Citing the case of an international franchise in Karachi, Ms Anila further advises that the franchisor should make it a point to have the lease of the franchise location in his own name. Though it is the franchisee who pays the rentals and the bills, this arrangement ensures that the franchisor has a continuous handle on the business activities of the franchisee. If at any point in time the franchisee decides to quit, the franchisor can simply instate another franchisee on the same location and capitalize on the customer loyalty built there over time.

Franchising agents have an important role to play

A franchisor needs about three years to comprehensively get the knack on conceptualizing, and creating and operating a successful franchise. Offering a franchise involves taking legal opinions, securing patents and registering trademarks, making forecasts, developing the franchise marketing plan, formulating operation manuals, training the franchise staff and incorporating corporate values, amongst other things. He needs to share his operation manual and legal documents with the franchisee at the onset of the franchise

The biggest problem with franchising in Pakistan is that documentation needs are not clearly understood – Ms. Anila Haq, Francorp Pakistan.

As franchising laws have not yet been made in Pakistan, there are no clear cut rules and hence, due attention must be given to the Franchise Agreement.

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agreement. The franchisor is also required to share his business plan, which should include his history and future goals.

The franchising agent acts as a match maker, a conduit and a mediator between the franchisee and the franchisor.

The services of franchising agents who are in the business of advising companies to succeed as franchisors come in handy and may well be utilized, at least in the initial years of the franchise. Many such facilitation services are present in Pakistan and in international markets which assist the franchisor from developing the franchise development program to finding the right franchisee, and actually launching the operations. The franchising agent acts as a match maker, a conduit and a mediator between the franchisee and the franchisor so that the franchise partnership successfully attains its shared goals. Should a company decide to franchise its brand internationally, the franchise agent helps it do its homework locally, and then passes on the task to its partner in the region of interest for matchmaking and onward processing, thus taking care of both ends of the deal.

Become a brand and expand as a franchise

Expansion via franchising is too lucrative a concept to be ignored. Success of many homegrown brands has repeatedly proved that swelling consumerism in urban Pakistan and growing South Asian populations elsewhere in the world offer tremendous opportunities that must not be overlooked. Entrepreneurs need to study the global environment and tap into the potential offered by the ever increasing diaspora of South Asian origin living in the world.

Entrepreneurs need to study the global environment and tap into the potential offered by the ever increasing diaspora of South Asian origin living in the world.

As the western world develops a liking for Pakistani food, it presents a new, affluent and non-traditional market yearning to be exploited, and Pakistanis do have the potential to do that. Pakistani businesses do need to think big and focus on creating their brand image and then on building franchises. The secret to a booming franchise, however, lies in a strong product offering and a robust network.

“Whenever you see a successful business, someone once made a courageous decision.”

Peter F. Drucker

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Annexure: Outlet-wise list of Pakistani businesses already franchising, working on partnership module or ready to franchise in domestic market					
Name of Business	Karachi	Lahore	Islamabad	Other Cities	Total
Clothing and Style					
Bareeze	5	20	3	37	65
Ideas	20	11	5	14	50
Origins	5	9	5	21	40
Alkaram	8	4	3	9	24
ChenOne	2	5	2	15	24
Ego	7	5	6	3	21
Mausummery	2	8	2	9	21
Crossroads	6	4	2	4	16
Cotton & Cotton	5	4	0	0	9
Ary Jewellers	4	1	0	1	6
Outfitter	3	2	1	1	7
FNK Asia	3	1	1	0	5
Sheep	3	1	0	0	4
Brands just Pret	2	0	0	0	2
Leather and Shoes					
Hub	8	4	3	1	16
Jafferjees	5	1	2	1	9
Bata Shoes	400+ stores all across Pakistan				
Servis Shoes	450+ Stores All across Pakistan				
Fitness and Hair					
Shapes	1	4	0	3	8
Bumble&Bumble	2	0	1	0	3
Hair Club	1	2	1	3	7
Food					
Pizza Point	10	0	0	0	10
Whoops	2	2	2	2	8
14th Street Pizza	5	0	1	1	7
Ginsoy	5	1	0	0	6
BBQ Tonight	2	2	1	1	6
Chacha jee	4	1	1	0	6
United King	6	0	0	0	6
Lal Qila	2	1	1	0	4
Bumzee's	2	0	0	0	2

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Name of Business	Karachi	Lahore	Islamabad	Other Cities	Total
Chatkharay	2	0	0	0	2
Convenience Store					
Imtiaz Stores	4	0	0	1	5
Education					
The Educators	600+ Branches all across Pakistan				
Allied School	More than 600 Campuses all across Pakistan				
The Smart School	230 Branches all across Pakistan				
Roots School System	100 Branches all across Pakistan				
Air Foundation School System	71+ Campuses all across Pakistan				
Leads School System	41+ Campuses				
The Educators	40+ Branches all across Pakistan				
Cothm College	1	3	1	8	13
Leadership College	0	2	0	5	7
Courier Services					
TCS	All across Pakistan				
Call Courier	All across Pakistan				
Express Courier Link	All across Pakistan				
Source: KCCI Research; Francorp Pakistan					

* The list is not exhaustive

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