



Hong Kong: Franchising Opportunities for U.S. Quick Service Restaurants

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Few clouds are without a silver lining, and the current recessed economic climate in Hong Kong presents opportunities for U.S. franchisors of quick service restaurant concepts to open outlets here.

Michael Chan, Chairman of Café de Coral, one of Hong Kong's largest fast food chains, spoke recently of the opportunities for expansion of quick service restaurants in Hong Kong. "Before [during] the 1998 [Asian] economic crisis, we saw white-collar, young executives cutting spending and heading for fast food chains. That's the same situation we're seeing now." Apart from consumers substituting quick service restaurants for fine restaurants to cut household expenditures, retail space rentals have also dropped between 15% and 20% in Hong Kong.

Franchisors of American quick service restaurants must, however, bear in mind the following when planning to expand their concepts to Hong Kong and China:

1. Be willing to adapt your products or service to the local market conditions, such as by changing the menus to include popular local dishes. Sourcing locally can help in localizing products as well as reducing costs for the franchisee.
2. Be ready to change your business model. Unlike in the 1970s and 80s Asian companies are not very interested in buying expensive franchises with no significant market presence in the region. They do not see any value in paying a high price for something that has no proven model locally. They would like some financial commitment from the franchisor/brand owner. Even offering a small minority equity stake in a joint venture is better than nothing. These potential local partners know that if you have a direct investment in the success of the local franchise then you will do everything possible to make it a viable business.
3. Be prepared to establish a regional presence to develop and support your local business relationships. A twice yearly visit from the U.S. headquarters is not enough! You will need to be on the ground and in constant touch with the local partner to understand the local conditions and fine tune your products and service offerings accordingly.

Setting up an office to supervise, train or manage a franchisee in Hong Kong is simple. U.S. companies can incorporate their operations, register branches, or set up rep offices freely in Hong Kong. There is no restriction on ownership, and company directors need not be citizens of, or reside in, Hong Kong.

Hong Kong has no disincentives to foreign investment – such as limitations on the use or transfer of foreign currency, or any system of quotas, performance requirements, bonds,

deposits, or other restrictive regulations. Reporting requirements are straightforward and not onerous. There is no distinction in law or practice between investments by foreign-controlled companies and those controlled by local interests. Relatively high labor and rental costs are the major disincentives to establishing a presence in Hong Kong.

Information on all aspects of setting up a business in Hong Kong can be found on the Invest Hong Kong website: www.investhk.gov.hk including information on the cost of setting up (typical office rental, staff costs, registration fees) as well as information on the cost of living or bringing your family to Hong Kong.

4. Should your strategy encompass entry of the Mainland China market, it is almost imperative that you establish some company owned stores in China to prove the business model and attract high level local partners. Trying to find a local franchisee in China is a real "hit and miss" game and the chances of success in the beginning are very low. Joint ventures in the second stage are a good way to develop the market, but not as an initial market entry strategy.

5. Do not bring your restaurant concept to China now *just* because the U.S. economic situation is weak. Foreign companies that succeed in China have been working in the market for many years and have refined their business models and built up solid local relationships. Are you willing to make such a commitment?

6. Avoid under-positioning your offering in the Hong Kong market. Often the packaging, menu and plate presentations used in QSRs in the U.S. appear down market to the eye of local customers. Remember that Asians eat and buy with their eyes! The ambiance and seating offered often must be more upscale than in the U.S. to match the Asian customer expectations of an American brand restaurant.

7. Be sure to register your patent, trademark or copyright in English and Chinese. In Hong Kong it is quick and easy to register a patent, design, trademark or copyright, with or without the assistance of an IP consultant or lawyer. It is, however, essential to register both the English and Chinese versions *under the name of the franchisor*. Often, franchisors forget to register their trademarks in the local language. In one recent case the local franchisee registered the trademark in Chinese, but the franchisor did not. Upon termination of the franchise, the franchisor discovered that his new franchisee was precluded from using the original product name, as the former franchisee owned the trademark. Where the original product name may have become a household name, adopting a new Chinese name may diminish the recognition of the brand.

Full details are available from Hong Kong's Intellectual Property Department on website: www.ipd.gov.hk which offers an online search of designs, patents and trademarks records, as well as downloadable registration forms. The Intellectual Property Services Center offers similar services: www.ipsc.org.hk

8. Apart from Hong Kong, Macau and Mainland China combinations, consider carefully before awarding a multi-country franchise. In this region, such one-country operators typically simply collect franchises and are rarely successful outside their main operations base.

It is relatively easy to set up a foreign franchise operation in Hong Kong as there is no specific legislation governing franchising operations, no exchange controls, no anti-trust laws, and no foreign equity participation or local management participation regulations.

The U.S. Commercial Service in Hong Kong offers a host of services to assist U.S. franchisors find local master franchisees or area developers. To find out more about the types of services such as the Gold Key service, the International Partner Search, please check this website:
<http://www.buyusa.gov/hongkong/>.

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