

## **Franchising in Turkey (Global Retail News - Nov. 2011 - Volume XII - n°124)**

### **Franchising in Turkey**

#### **I. The attraction of investors to the Turkish market**

The territory of Turkey covers 779,452 km<sup>2</sup> and it counts on a population of 78.8 million inhabitants.

This is a country immediately recognized by its dynamism, due to its predominantly young population (54% of the population is under 30 years old) and due to its growth potential. Urbanization and westernization of big cities were factors responsible for the modernization of the distribution markets. This modernization relies on a fast development of shopping centers.

The official language is Turkish, several regional languages are also spoken including Arabic, Kurdish and Laz. Turkey is a country of continental law. Its political organization takes the form of a unicameral parliamentary republic embodied by the Grand National Assembly of Turkey.

The religion of the country is Islam, however, since 1934, a statement about secularism figures on the Turkish Constitution. Its rapprochement with the West (Turkey is a member of NATO, of OECD, of G20, of Council of Europe and has signed an Association Agreement with the EU in 1963) is seen as a guarantee of political stability for investors. Nonetheless, problems related to corruption and conflicts with neighboring Cyprus and Greece remain.

#### **II. Turkish economy and distribution sector**

The country's potential to attract foreign investment is characterized since the early 2000s by a stable inflation rate to 10% on average and increased purchasing power, with a GDP per capita of \$ 10,436. Turkey is the country that grew the fastest among emerging economies. Its average growth rate was 6% in the last five years. The process of trade liberalization and facilitation measures such as the granting of bank loans in place from the 1980s encouraged the country's openness to foreign investment.

Urbanization and Westernization of the big cities were the factors responsible for the modernization of the distribution market that relies on an accelerated development of shopping centers. The distribution sector is the fifth largest market in Europe in terms of food expenditure and the eighth largest all expenses combined.

Between 1993 and 2000 the number of franchisors evolved from 36 to 300 and the number of franchisees evolved from 663 to 10 000. The Turkish Franchise Association (UFRAD) reports a high rate of foreign franchisors as they account for between 65 and 70% of all franchisors.

#### **III. A legal background for franchising yet to be defined**

The beginning of the franchise networks in Turkey dates back to the 1980s, when the most famous chain of fast food conquered the country. Over the years, with experience of the local market, franchise networks have settled in all sectors.

The establishment of a foreign franchisor in Turkey is treated as a flow of foreign direct investment (FDI). The new Foreign Investment Act of June 5, 2003 (Act No. 4875) has strengthened the protection of foreign investors in establishing the principle of national treatment, thus removing the requirement of preauthorization.

Despite its rapid growth and very positive economic environment, Turkey has no specific legislation regarding

franchise. Franchise agreements continue to be governed by common law obligations, including the Turkish Code of Obligations No. 818 of 1926 and the Law on the Protection of Competition No. 4054 of 1994.

Since 1991 the Turkish Franchise Association strives to facilitate the integration of foreign franchisors in the Turkish market. Having adopted a code of ethics based on the European Code of Ethics for Franchising, the Association promotes quality standards that govern the franchisor-franchisee relationship and demand, in particular, the implementation of a specific law on franchising.

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