

Is Europe really closed for business?

Let's talk about the elephant in the room – is the continent really becoming a “no-go zone” for recruitment and investment?

by Farrah Rose

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Sometimes it feels like we are just reeling from one bad news story to the next. It certainly does feel like Europe has been hit by a perfect storm in recent years: the pandemic, rising fuel costs, the secession of a key economic partner from the E.U. and, now, the fear that the horrific events in Ukraine may spill into neighboring countries.

However, news stories only give us a partial picture of what is really happening, and the economic reality on the ground requires a lot more context and specialist knowledge. As part of a cross-continent network of franchising experts, we decided to reach out to our partners to ask: is it really all doom and gloom?

Unsurprising, responses were a mixed bag that paint a picture of a changing landscape on the continent, but one which still leaves a great deal of room for optimism – especially for certain key sectors.

Post-COVID-19 recovery

While the staggered lifting of restrictions across Europe has also led to an uneven economic recovery, many countries are reporting a strong bounce-back even in the face of rising inflation. Germany is looking at projected GDP growth of between 3.1 and 3.9 per cent in 2023. Many in the country see this as disappointingly low but, with the U.K. looking at a much more sluggish 1.3 per cent for the same period, the German economy appears to be much more robust in the long term.

Likewise, the Dutch economy is set to grow at a record rate over the next year, and Sweden, Finland and France are seeing a significantly higher and faster recovery than the U.K. The Czech economy was one of the E.U.'s best performers in the last few years, with broad-based growth of nearly 4.5 per cent and an unemployment rate of 2.8 per cent, one of the lowest in the E.U.

While Czechia is experiencing very high inflation, its entrepreneurs are taking a long-term view and there is considerable investment still occurring. Portugal is also offering a lot to be hopeful about with growth way above that predicted, and may be one of the first countries to surpass its pre-pandemic economic activity during 2022.

Things are not quite as rosy in the U.K. or Italy, however. Britain has probably been one of the hardest-hit countries following the double challenges of Brexit and Covid-19, and now it faces some of the sharpest spikes in inflation and energy prices. Similarly, Italy is seeing a rapid rise in consumer and fuel costs exacerbated by anxiety and hesitancy over the effects of the Russia-Ukraine conflict on the region's trade infrastructure. However, both countries are seeing certain sectors boom, especially in the U.K., which we will discuss in more detail later.

Many European countries remain very attractive prospects for expansion, as well as seeing their own native franchises maintain their resilience. Of course, GDP is only so useful as a measure of how an economy is doing, particularly when it is offset by rising inflation and energy prices. Traditionally, franchising has performed well during times of economic downturn when investors are looking for safer alternatives, so the attitudes and culture which underlie these figures are of arguably much more interest.

The impact of the war

The start of the conflict in Ukraine, aside from the obvious humanitarian concerns, was a real blow to economic confidence in

Europe. Just as countries were starting to see light at the end of the tunnel after the pandemic, this new crisis hit. Of course, it is anyone's guess how this will resolve. Partners in Europe are having to prepare themselves for two equally likely scenarios: the return to business as normal by autumn, or a further deepening of the crisis.

In the meantime, the conflict is adding to the hesitancy of consumers, and potential franchisees, in several countries where supply chains are most at risk. As many of the larger economies shift away from their energy dependency on Russian gas, there exist both challenges and opportunities in equal measure. Everyone is feeling the pinch, but the continuing series of crises is also driving a renewed sense of importance in investing in systems like franchising which offer sustainable long-term growth.

One surprising exception to this trend is Romania, where our partners have a sense of buoyancy and promise, despite sharing a border with Ukraine. Banks are viewing franchising much more favorably there, and are starting to invest a considerable amount of funds to back both franchisees and franchisors. Together with relatively low costs and inflation, this position makes the country an emergent market worth watching.

Which industries are performing well?

Shifting consumer trends are producing some very interesting results right across Europe. While there are obvious concerns about the cost of living, people are certainly still spending money, albeit in different ways than before. This is causing a boom in recruitment across certain sectors.

In the U.K., it is a very prosperous time for franchises that focus on home improvement, online delivery, home education, and fitness, all of which are fuelled by changing habits during the pandemic. Franchises in the care sector are also booming, as are “dark kitchen” fast-food delivery concepts that can offer fast turnover and low operating costs.

Overall, franchisee recruitment is still slow with a great deal of hesitancy to invest, but a strong bounce-back is anticipated after Spring.

However, these industries have not only remained strong throughout the last two years, but are set to become by far the biggest growth sectors for new recruitment any of us have seen in a long time. Both new and more established franchises are seeing their networks grow very rapidly indeed.

This trend is being largely reflected elsewhere in Europe too, with all our partners reporting a similar scenario in their own regions. Traditional tourist destinations are starting to see a rise in hospitality and F&B recruitment as those industries strive to recover post-pandemic, with innovative food concepts a big hit in Lisbon, in particular. France, Denmark, and the Netherlands are seeing an increased interest in lifestyle brands that consumers see as reflecting the new reality: a shift away from city working and living, and an emphasis on sustainability.

The effects of uncertainty on franchising

As many wise people will tell us, crisis is just the other face of opportunity. So, while there is certainly plenty of negative factors to focus on in the news in Europe, we must also remember that times of great change can also create fantastic opportunities. Of course, we are not suggesting anything cynical that takes advantage of others' misfortune – quite the opposite!

Rather, we are urging you to remember that difficult times cause people to reassess their priorities, and how they see their working lives, and the futures of their businesses, is a huge part of that.

People shift out of old patterns and start to be more open to new strategies and opportunities. Systems like franchising that provide a model for change, but with reduced risk, are hugely appealing – both

for those looking to invest in a franchise, and for those seeking a way to grow their businesses.

There's no doubt that the winds of change are blowing across Europe, and no-one can say with any certainty exactly how things will pan out over the coming months and years. Obviously, there are risks, but when aren't there?

Circumstances should not put you off continuing to do business in Europe, but instead reinforce to you the critical importance of having the right advice and guidance from experts on the ground. Success in international franchising has always come from businesses that not only have a strong brand, and the resources to grow it, but who have also chosen to expand by working with experienced local partners in their target markets.

The future of franchising in Europe belongs to the bold and the innovative – now more than ever.

The author

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