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MATRIXES FOR MEASURING

A Franchiser's Path to International Success Is Often Paved With Pitfalls

By Julie Bennett

Just a few years ago, many franchise companies expanded internationally the way Kinder Dance of Melbourne, Florida, did — by taking a leap of faith rather than resorting to a rigorous checking procedure. Today, international expansion is more scientific, and franchisers have matrixes to measure the risks of entering other countries, and the Internet to keep in touch with franchisees across borders and time zones.

The most common problems franchisers face today involve trademarks, translations and cultural issues. Rarely these days do franchisers lose contact with franchisees completely, as happened to Kinder Dance.

Says Bernard Friedman, Kinder Dance's co-founder and vice president: "We're a home-based franchise whose franchisees go into day care centers to teach children the basics of ballet, tap and gymnastics. We have 108 U.S. franchisees and weren't looking for international business, but some women from Singapore, the Bahamas, Canada and Peru found us in the mid-1990s and were so passionate about taking the American version of our franchise back to their countries, that we let them."

Despite bringing the women to the U.S. for training and visiting their locations at least once, none were very successful, according to Mr. Friedman. A couple of the women are still operating, but the others have gone out of business. "We don't know what happened to the franchisee in Peru," he says. There was political turmoil in the country and "we never heard from her again."

Thanks to advancing technology, franchisers can now check in with far-flung franchisees round the clock. For example, IFX Online of San Diego offers Internet services that allow its 130 franchiser customers — 69 of whom franchise internationally — to stay in constant contact with their 25,000 franchisees. Franchise-specific and password-protected Intranet sites let franchisees file sales and royalty reports electronically and allow franchisees to share tips and experiences.

The Internet also plunges all franchise systems into the world-wide marketplace, whether they want to be there or not. William Edwards, president of Edwards Global Services of Irvine, California, chaired a seminar at the International Franchise Association (IFA) convention in Hollywood, Florida, last month, called "Getting the Global Edge in an Unsettled World." When franchisers in the audience complained about the flood of e-mails they get every day from people who say they want to be franchisees, Mr. Edwards, whose consulting company assists franchisers in their international expansion, advised: "Just send back a nice e-mail, spelling out your franchise's qualifications and total investment. That should eliminate about 99% of them."

Seminar panelist Ned Lyerly, vice president, international, for CKE Restaurants Inc. in St. Louis, said he measures all such leads against an elaborate "market desirability index" that lists all the factors needed to open a successful Carl's Jr. or Hardee's fast food restaurant. "We look at demographics like age distribution — are there enough potential customers under age 30; education;

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income levels and purchasing power parity; and the country's cultural acceptance of Western products or services," Mr. Lyerly said. Other factors include the quality of a country's roads, telecommunications and distribution systems, its labor and real estate costs and the stability of its government. So far, the matrix has taken CKE into only 14 other countries. "If a lead came in that ranked high in all factors," Mr. Lyerly said, "we'd go after it in a heart beat."

Political upheaval can upset even the most scientific expansion plan, said fellow panelist Ted Price, director of international operations for The UPS Store based in San Diego. The company has vast international experience, with 1,300 franchises in 43 other countries, but when Venezuelan president Hugo Chavez instituted monetary controls, "we could no longer collect royalties from our master franchisee there," Mr. Price said.

AP/Ng Han Guan

China's appetite for the Colonel's chicken has brought more than 1,200 outlets to the country.

To help franchisers avoid such risks, Mr. Edwards distributed a franchise-friendly index, ranking 30 of the world's best potential franchise markets according to factors like market size, ease of entry and government corruption. The U.K., U.S., Singapore, Australia and Germany are at the top of his list, with Malaysia, Poland, India, Russia and Indonesia at the bottom.

Another risk franchisers face in the international marketplace is the loss of their trademarks. Mr. Edwards told convention attendees of one U.S. franchiser who made the mistake of letting a U.K. franchisee help register the franchise's trademarks in European Union countries. The U.K. franchisee ended up owning the trademarks himself, and offered to sell them back to the franchiser — for $800,000.

In another IFA session, Marlene Gordon, associate general counsel for Burger King, of Miami, said her company registered over 2,100 marks — the Burger King and BK names, plus menu items like "Whopper" and taglines like "Have it Your Way" — in 125 countries. "But by the time we got to Australia, someone else had registered the 'Burger King' name there," she said. Today, all 297 of the company's Australian franchises operate as Hungry Jack's restaurants.

The mistakes U.S. franchisers make abroad tend to get magnified. In late March, newspapers in China carried headlines about KFC using Sudan 1 — a dye linked to cancer — in several menu items there. KFC's parent, YUM brands of Louisville, which derived 18% of its 2004 profits from its 1,243 Chinese restaurants and is opening one more in the country every day, acknowledged its error and quickly pulled the tainted seasonings.

Other missteps take longer to correct. During a late March conference call from their offices in Burlington, Vermont, Ben & Jerry's international franchise team — David Rachlin, director of international business and brand development; Michiel Leijnse, international brand manager; and Will Patten, director of retail operations — talked about that ice cream company's expansion into Asia and Europe. When London-based conglomerate Unilever purchased Ben & Jerry's in 2000 for $326 million, "We made the mistake of thinking that business professionals could be franchising people," Mr. Patten said, "and let them take over international expansion. But franchisees have to feel they're part of something bigger."

For Ben & Jerry's, that meant taking back the expansion effort and linking franchisees in Spain and Singapore directly into the company's quirky Vermont culture. "We stopped trying to translate our ice cream names," according to Mr. Leijnse, "after Chunky Monkey would have been 'Ice Cream with Pieces of Monkey in It' in Japanese."

Today, the 13 scoop shops in Asia and 137 in Europe even share Ben & Jerry's social mission, with localized modifications. In the U.S., the company's Phish Food flavor — chocolate ice cream containing marshmallow nougat and grinning fudge fish — is named for the Vermont-based rock band Phish and part of the proceeds from all sales go toward the conservation of Lake Champlain.

But no one had heard of the band Phish in Sweden. There, franchisees linked the flavor with a campaign against over-fishing, Mr. Leijnse said. Their tagline is "Save the cod. Eat chocolate phish."

Back at the IFA convention, Mr. Friedman of Kinder Dance took careful notes in all the international sessions. "Before this conference," he said, "we thought we'd give up on international expansion. Now I think we'll go forward on a limited basis. There are some people in China who are very interested in our program." But this time, he said, he'll figure out ways to keep control of his international franchisees.