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 mechanisms to measure the risks of entering other countries, and to monitor the cash flow in touch with franchisees across borders and time zones.

The most common problems franchisers face today involve trademark, legal, and cultural issues. Rarely do these day do franchisers lose contract with franchisers 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 ran U.S. franchises and weren't looking for international business, but some people 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 do it."

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 franchise in Peru," he says. There was political turmoil in the country and "we never heard from them again."

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

The Internet also plagues all franchiser 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 income levels and purchasing power parity; and the country's cultural acceptance of Western products or services. Mr. Edwards says. 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 shown CKE in only 14 other countries. "If a lead came in that ranked high in all factors," Mr. Lytel says, "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 franchisers in 43 other countries, but when Venetian president Hugo Chavez instilled military controls, "we could no longer collect royalties from our master franchiser there," Mr. Price said.

To help franchisers avoid such risks, Mr. Edwards distributed a franchise-friendly index, ranking 30 of the world's 88 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. franchiser snap up the franchises trademark in European Union countries. The U.K. franchiser ended up owning the trademark himself, and offered to sell them back to the franchiser — for $800,000.

In another IFA session, Marlene Gooden, 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 slogans 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 sauce.

Other mistakes take longer to correct. During a late March conference in Hong Kong at the Grand Hyatt in Burlington, Vermont, Ben & Jerry's international franchise team — David Raklin, director of international business and brand development; Michelle Lejina, international brand manager; and Will Patten, director of retail operations — talked about how Ice cream company's expansion in Asia and Europe. When London-based conglomerate Unibber 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 franchisers have to feel they're part of something bigger."

For Ben & Jerry's, that meant taking back the expansion effort and finding franchisers in Spain and Singapore directly into the company's quirky Vermont culture. "We stopped trying to translate our ice cream names," according to Mr. Lejina, "after Chrismoosy would have been Ice Cream with Pieces of Monkey in it in Japan."

Today, the 13 scope 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 fish — is named for the Vermont-based rock band Phish and part of the proceeds from all sales go towards the conservation of Lake Champlain.

But no one had heard of the band Phish in Sweden, there, franchisers linked the flavor with a campaign against overfishing. Mr. Lejina said. Their slogan is "Save the cool, last chocolatefish."

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's so much more we're interested in our program." But this time, he said, he'll figure out ways to keep control of his international franchisers.