

International

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Going Global?

Better read this first!

In previous articles we looked at the basics of taking your franchise global, how technology helps you succeed globally, and how U.S. franchises are growing around the world. So if you have decided to “Go Global” with your franchise, the next question is, “Now what?”

Recent reports by both McKinsey and the *Economist* indicate that global executives in many regions of the world are more bullish about new investments than in recent years. More countries are expected to see more investment in new projects in 2014. This is good news for U.S. franchisors seeking international licensees.

What qualities does your franchise need to succeed globally? Experience across more than 50 franchisors shows the following to be critical to success:

- A proactive business plan to identify countries where your franchise is most likely to get a good return on investment; do not just grant licenses in countries where you get the most Internet leads.
- A good record of success at home; having good unit economics is critical to attracting the best international licensee candidates.
- Strong and clearly documented training, support, and marketing programs; this is what international licensees are buying.
- Clear differentiation to succeed in countries where there will be competitors; to attract both licensees and consumers for your product or service.
- An international financial model at the unit and area or master franchise level that offers the licensee the potential for a good rate of return.
- A strong and robust intranet. This is the best tool for communicating your brand standards across time zones and cultures.

What steps to take

Your proactive Going Global business plan should include an analysis of countries where franchising is common. Before starting to seek licensees, spend time researching countries for suitability. Many sources of information on countries and franchising are online (see list on next page).

For each country under consideration, is the rule of law in place to protect your intellectual property and control your brand if problems arise? Will you need to make major changes to your brand? Are there cultural aspects of your franchise that will not fit into certain countries?

Once you have identified the top 5 to 10 countries for your brand, it's time to register at least your basic trademark in those countries. *Do not start marketing your franchise in a country without having filed a trademark application.* If you do not file, you stand a good chance of having to buy back the mark from someone who registers it for you!

It is also critical to conduct due diligence on each licensee candidate you are considering. You are required by U.S. law to know who you are doing business with. Who owns the company? Where is the capital coming from? Consider using international credit and reputation risk management companies to complete your candidate due diligence. You also want to be sure the candidate creates a business plan that shows they know your brand and have a development plan in place that matches your desires.

Be sure to ask for detailed company financial information. Sometimes you will want personal financial information for senior executives. In some countries, such as Singapore, you can access annual company reports online that show owners, financial results, and capitalization.

Selecting your overseas licensee

What is the profile of the licensee candidates who will be the best for your franchise? Do they need experience in your sector? What amount of capital do you want the international licensee to have to acquire the rights to your franchise, build units, and grow your brand in their country? Again, experience says the following elements are important:

- Someone who truly understands your brand and who has a passion for your business. This helps when things do not go exactly right!
- A group or company that has had successful business experience in their sector or a related one. This is most important for restaurant brands that want their licensees to know the food and beverage sector and have documented experience before being granted another license.
- A good reputation in their country. They will be your brand in their country.
- Marketing and sales-oriented candidates are best as they must establish and grow your brand in their country.
- Experienced management, often difficult to find in emerging markets and a major challenge for U.S. franchisors.
- If appropriate, access to good real estate. Can they find and acquire the best sites?
- And, of course, capital to acquire and grow your brand in their country. Capital availability is excellent these days. Since there is little franchise-related bank borrowing outside the U.S. (with the exception of Australia, New Zealand, and the U.K.), capital to acquire and grow your franchise will come from internal sources or equity investments.

What they want from you

- A well-defined franchise operating system they can duplicate in their country. This system is what you are selling. If they follow your system, they should make a good return on their investment.
- Training, operating, and marketing manuals and programs that can be used locally. The systems and standards you have developed at home are what you want the international licensee to follow (with necessary local modifications).
- More and more we are seeing in-

ternational licensee candidates asking for your Item 19. They want to see what you are publicly saying about the unit economics of your franchise.

- How will they communicate with you? As noted, an intranet is the best way to overcome time zones and get your best practices out to licensees around the world.

Finding the best licensee

Update your company website to include an international licensing section with basic information about your brand and the requirements for an international licensee—and an easy way to contact your development department. This is the least expensive international marketing you can do and can lead to excellent candidates.

Attend IFA meetings and network with franchisors that have already gone global. They can help you make fewer mistakes!

Work with the U.S. Commercial Service offices in your target countries.

Online Information Resources

The Economist
 Financial Times
 Fraser Institute
 GlobalVue (from EGS)
 International Franchise Association
 McKinsey & Company
 U.S. Commercial Service
 Wall Street Journal
 The World Factbook (CIA)
 Worldatlas.com

They have “Gold Key” programs that help you identify specific local groups who fit your licensee requirements and can arrange for you to meet pre-qualified candidates during a visit to the country.

The IFA and U.S. Commercial Service sponsor Franchise Trade Missions to countries where franchising is growing as a business investment model. Recent missions have included India, Southeast Asia, the Middle East, Southern Africa,

and several cities in China.

Seek out consultants who specialize in international franchise development. Ask for their list of current and past clients as references. Ensure they have experience on the ground in your target countries.

In summary, the opportunity is out there for your franchise. Whether you find the right international licensee and succeed in generating substantial net income from international development depends on how you prepare for Going Global. ■

William G. Edwards, CEO of EGS, LLC, has 40 years of international business experience. He has lived in 7 countries and worked on projects in more than 60. He has been a master licensee in 5 countries, in charge of international operations and development for a U.S. franchise, and has advised more than 50 U.S. companies on international development. Contact him at 949-375-1896, bedwards@egs-intl.com, or read his blog at edwardsglobal.com/blog.