



“Opportunities & Challenges For Franchises Coming To The USA”

Franchise Update magazine article – issue 3 2013 – William Edwards

While many US franchisors are now expanding into other countries seeking new growth and less competition, international franchisors are finding the world’s largest economy a target too good to pass up. But are the streets of the USA still paved with gold?

“Many international franchisors salivate at the prospect of entering the United States, the world’s largest consumer market”, says Ray Hays, Senior Director of EGS in his recent ‘Entrepreneur’ magazine article on this subject. “Perceived barriers to entry for non-U.S. franchisors include a litigious and highly regulated legal environment, complicated multi-cultural demographics, fierce competition and high investment requirements. In short, the U.S. market is often viewed as too **expensive, risky and complex**, but many of these perceptions are overblown myths. In reality, the franchising opportunity in the U.S. far outweighs any barriers to entry”, says Mr. Hays.

According to International Franchise Association’s **Economic Impact Study**, there are over 900,000 franchise business locations in the USA create more than US\$2.3 trillion in sale annually. One in every seven jobs in the US is tied directly or indirectly to franchising. There are over 3,500 different franchises in the US. 54¢ of every retail dollar in the USA is spent at a franchise. Every product and service in the US is provided by a franchise. The US has well defined franchising laws. And most important, the US market is open to good new concepts from other countries.

The Challenges

But there are considerable challenges for a foreign franchise wanting to succeed in the USA market. Trademarks, domain names, Intranets, franchise advisory councils, state franchise laws, extreme sector competition, property leasing, ‘translation’, detailed manuals and systems, marketing limits and measurement conversions are just a few of the US-centric aspects of franchising that many other countries do not have. Other challenges are dealing with the large geography, the diversity of the US culture and economy and the sheer size of 310 million consumers. And often the foreign franchisor thinks they will find a country master franchisee to develop the entire USA.

Lesley Hawks, Vice President, Western Region, for St. Jacques Marketing, believes Cherry Blow Dry Bar® is another Australian import that will ride the wave of success in the US. "I think Cherry Blow Dry Bar® has been surprised at the long time it has taken to get underway here in the US; selecting iconic sites, the lease process, disclosures, infrastructure and the like. However, generally they find business much easier than in Australia and the US franchise arena much more vibrant."



Cherry Blow Dry Bar®, which is tapping into the high end, high growth women's hair blowout only craze, has two sites in construction in Florida and New York City with a location being finalized in Beverly Hills.

According to Mark Seibert, CEO of iFranchise, the attributes any franchise needs to succeed in the USA, the country with the most franchises, are:

The franchise needs to be credible. Does your company have experienced management? A track-record over time? Is the concept proven?

The franchise needs to be unique. Is your business adequately differentiated from its competitors? Competition is high in the US. Does it have a sustainable competitive advantage?

The inbound franchise needs to be teachable. Are the systems in place? Are operating procedures documented in manuals?

And, most of all, the franchise needs to provide an adequate return to its franchisees. Today franchising is all about having good unit economics in this country.

According to Darrell Johnson, the CEO of FRANdata, a company that documents the performance of franchises, there are two key topics that are important to understand before a company starts taking active steps to enter the USA:

Capital: How much capital will it take to get established and what should be expected for a return on capital over time?

Competition: Who is the target audience, will they be receptive to the product/service, US brands that provide similar products/services now, how established are these competitors, how many competitors use the franchise business model and what are the franchised competitors' growth models, pattern of geographic growth, characteristics of their franchisees, approach to product/service marketing, and these competitors' strengths/weaknesses?

There are thousands of US franchise companies with performance history that can be analyzed in many sectors for the inbound franchise to answer these questions before they invest.

Examples Of Franchises Coming Into The USA

Le Pain Quotidien® is an example of a foreign franchisor who took an intelligent, measured path to success in the US, according to Jeff Kolton, Principal of Franchise Market Ventures, who brought this high end food brand to the US some years ago. Based in Belgium, with international licensees in 17 countries, the company established an office in the US (in NYC) and hired a management team with significant experience at building similar chains in the US. Instead of launching a franchise program in the US, they grew organically through company owned units, slowly creating the infrastructure to support future growth. "They continue to have all their tables/chairs made by the same company in Europe to maintain brand integrity, work off the same menus for their breads, and lean towards menu consistency around the world," says Mr. Kolton..

Jeff Elgin, CEO of FranChoice, Inc., sees a broad swath of franchises entering the US. “A new entrant recommend is Metal Supermarkets®. They sell odd lots of metal to companies and there is a huge market with lots of demand for this and great margins for the franchisee. This franchise’s tag line is ‘the world’s largest supplier of small quantity metals’ and it comes from Canada. They consider themselves the ‘convenience store for metals’. Again, filling a niche.

Alan Branch, Managing Director of Global Franchise Partners, based in Australia, is helping Floral Image® enter the USA.

Ben Trussell, the Founder, says, “businesses need inspiration and a professional appearance. Floral Image corporate flower displays are just what a business needs. USA will be the biggest market for Floral Image and a challenge we are ready for. I smile every time I hear someone say 'I just can't believe these aren't real, they look better than real flowers!' Filling a niche is a very good reason for an international franchise brand to enter the USA market.



Ichiro (Roy) Fujita, President of I. Fujita International, helps Japanese brands enter the USA. In 2010 Roy helped Gyu-Kaku®, a Japanese BBQ brand, enter the USA. Today the company 23 units in 6 states – company owned and franchised. And Mr. Fujita says they are all highly profitable.

In Summary

If an international franchise fills niche in the USA marketplace, follows the legal requirements, has strong operating systems, training and support and good unit economics, there is a place for the brand in the largest franchise market in the world.

The table lists a few international franchises that have entered the US market in recent years. Note that these are very diverse and cover the education, food and beverage, retail and service sectors.

EDUCATION, RETAIL AND SERVICE FRANCHISES

Aussie Pet Mobile (Australia by way of New Zealand)
Bark Busters (Australia)
Benneton (Europe)
Body Shop (United Kingdom)
Certa Pro Painters (Canada)
FibreNew (Canadian)
Kumon (Japan)
Liquid Capital (Canada)
Metal Supermarket (Canada)
Pirtek (Australia)
Pronto Wash (Argentina)
Tea House (TEAGSCHWENDNER - Germany)

Tutor Doctor (Canadian)
WSI (Canadian)

FOOD CONCEPTS

Beard Papa's (Japanese)
Boston Pizza (Canadian)
Din Tai Fung (Japanese)
Giraffa's (Brazilian)
Gyu-Kaku (Japan)
Jinya Ramen Bar (Japan)
Le Pain Quotidien (Belgium)
Little Lamb (China by way of YUM)
Manchu Wok (Canadian – Hong Kong owned)
Maoz Vegetarian (Dutch)
Montadito's (Spanish)
Polo Campero (Central America)
Taco Time (originally from Canada)
Tim Horton's (Canada)
Vom Fass (Germany)
85 C café (Taiwanese)

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