

Preparing Your Company to Go International

Going international can be lucrative, but it comes with a commitment and a price.

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IT'S A GOLD RUSH! Many franchisors are now looking at international markets to develop. It used to be only the few largest U.S. brands that attempted global expansion. These days many brands approaching only a hundred or so locations feel they are "ready." So how do you prepare your franchise to "Go Global?"

Let's start by looking at why franchises go global:

- More revenue from franchise fees and royalties,
- Less competition and regulation in other countries,
- Less dependent on your home market for success,
- Chance to leverage your intellectual property and technology,
- Follow the growth of the middle class consumer.

The London-based *Financial Times*, in the April 12 article "Population trends and real estate investment," indicated that over the next 10 to 15 years the middle class consumer population in the Asia Pacific region will grow from 565 million in 2009 to over 3.2 billion. In the April 10 *Wall Street Journal* article "Who are Facebook's biggest friends?" it was noted that only eight percent of the world's Facebook users are in the United States and Canada. And a McKinsey report dated Aug. 2012, estimated that by 2025, more than half of the world's population will have joined the consuming classes, driving annual consumption in emerging markets to \$30 trillion.

What challenges will you face when you decide to Go Global?

- Choosing the countries that will give you the best return on your investment: This can be a different list of target countries than just where your leads come from. Does the country have sufficient potential for your franchise to generate fees and royalties that give you a good return on investment?
- Choosing the right licensee: What are the requirements for your franchisee and will these be the same internationally?

- A high level of required due diligence on licensee candidates: You must find out more detail on who the candidate is, who owns their country, where their capital comes from and what their reputation is than you do for a U.S. franchisee.
- Supply chain management: If your franchise is in the food and beverage or the retail sector, how will you source products at the quality level that they require in your home country?
- Diluting your U.S. development focus: Do you have the internal resources to research countries, find candidates in other parts of the world, evaluate supply chain issues and conduct due diligence in another country? Do you have the funding for country research, finding, qualifying and signing international licensees? Marketing investment? In-country due diligence?

Which countries are right for your franchise? The easy answer is not all. The chart shows how some countries rank as places to franchise into. But this is not necessarily the list of countries you should target. Read further to understand some of the aspects of a country that need research before you spend money to register trademarks and market for licensees.

| Countries/Regions | Market Size (Customers) | Legal Concerns For Intl. Brands | Ease Of Intl. Franchise Entry | Ease Of Starting A New Business | Political & Economic Stability | Overall Country Ranking |
|--------------------|-------------------------|---------------------------------|-------------------------------|---------------------------------|--------------------------------|-------------------------|
| USA | 1 | 2 | 1 | 1 | 1 | 1.2 |
| Chile | 3 | 1 | 1 | 1 | 1 | 1.4 |
| United Kingdom | 1 | 2 | 2 | 1 | 1 | 1.4 |
| Spain | 1 | 2 | 1 | 3 | 1 | 1.6 |
| Australia | 2 | 2 | 3 | 1 | 1 | 1.8 |
| Japan | 1 | 2 | 2 | 3 | 1 | 1.8 |
| Middle East Region | 3 | 2 | 2 | 2 | 1 | 2.0 |
| Singapore | 4 | 1 | 3 | 1 | 1 | 2.0 |
| South Korea | 2 | 3 | 3 | 1 | 1 | 2.0 |
| Thailand | 2 | 2 | 2 | 2 | 2 | 2.0 |
| Brazil | 1 | 2 | 3 | 3 | 2 | 2.2 |
| Malaysia | 2 | 3 | 3 | 1 | 2 | 2.2 |
| Philippines | 2 | 2 | 1 | 4 | 2 | 2.2 |
| Viet Nam | 2 | 2 | 2 | 3 | 2 | 2.2 |
| China | 1 | 2 | 3 | 4 | 2 | 2.4 |
| Indonesia | 1 | 3 | 2 | 4 | 2 | 2.4 |
| India | 1 | 2 | 3 | 4 | 2 | 2.4 |
| Central America | 3 | 3 | 2 | 3 | 2 | 2.6 |

Country Ranking For Franchising: 1 is best, 2.5 is fair, 4 is worst

Data Sources: 'The Economist', EIU, Heritage Foundation, World Bank, Fraser Institute, World Economic Forum, USCS, Eures Hermes, McKinsey, the 'Financial Times', International Monetary Fund and the EGS' GlobalTeam™ in 32 Countries

(Continued on page 22)



IFA SHAPING INTERNATIONAL TOOLKIT AS CORE RESOURCE

The international articles by IFA supplier members in this issue are the first manifestation of the "IFA International Toolkit." IFA is shaping the Toolkit with the intent of it becoming a core resource for franchisors and franchisees interested in international franchising. The International Toolkit will feature courses that collectively comprise a curriculum in international franchising. The Toolkit will be branded and located prominently on the main international page of IFA's website. Look for webinars related to the Toolkit starting in the second half of 2015.

WHAT ARE THE CHARACTERISTICS OF SUCCESSFUL INTERNATIONAL FRANCHISORS?

Based on working with more than 40 U.S. franchise brands in over 30 countries and over 30plus years, we believe the following characteristics of a franchise will give the best chance of international success:

- Committed to finding the right licensees and building a royalty stream, rather than quick deal closing,
- Executives with strong brand knowledge and experience,
- Excellent unit franchise economics and consistent unit growth,
- Solid Item 19 in the U.S. Franchise Disclosure Document (FDD),
- Little or no litigation,
- Clear brand differentiation,
- Strong training, support, intranet and marketing resources,
- Business management software, preferably web-based.
- Use the best available external resources to decide which countries to target, to determine whether the franchise will work in a country and to find, qualify and sign international licensees. Demographics, culture, laws, regulations, real estate and language are just a few of the things to know before you Go Global.
- Financial models that demonstrate the potential for a good return on investment by the licensee for your units and licenses.

(Continued from page 20)

To be successful, there are specific tasks you should do before you actually sign an international license agreement:

- Develop a pro-active plan versus reacting to leads: Determine what are the requirements for an international licensee for your franchise and what attributes a country must have to be viable for your brand. Build a budget for one and five years to show all expected revenue and expense for Going Global.
- Type of license you will grant: Will it be an area license that requires the licensee to build, own and operate all units in their country? Will it be a master franchise that requires they build, own and operate some units and then have the ability to sub-franchise?
- Trademarks: File for trademarks in priority countries before you start marketing your franchise there. Or else someone will do this for you and you will have buy your mark back.
- Differentiation: The competition for the attention of overseas investors can be intense, so be prepared to differentiate your brand and present it properly. Existing domestic development marketing materials may not be sufficient and English is usually not the first language in many countries. You may need a thorough review and retrofit of websites, ads, public relations and even consider if existing video assets can be reframed to an international audience. Remember, a picture tells a thousand words.
- Training and support: Although as a franchisor you have departments in place to handle development, site selection, construction, training, marketing, public relations, manuals, supply chain, intranet for franchisees regarding on going issues, continuing education as well as pre-training, training, post training and continual assistance throughout the contractual obligations from the franchisor. The same applies in the international marketplace. What training will you provide at home and in the new country when the new licensee starts up? What will this cost be and who will pay?



- **Manuals:** One of the main assets an international licensee acquires is the process for making the franchise work and has the potential to yield a good return on their investment. Are your manuals up to date? Are they easy to understand? At all levels of operation?
- **Intranet:** If your franchise has a comprehensive intranet for your franchisees at home, you have a major asset for international licensees who will be able to access training, support, manuals and marketing materials 24/7.
- **Marketing for licensees:** How will you find and qualify leads in other countries? Who will do this for you? If you're receiving international leads how are you, as a franchise system, responding to these leads? Do you have an international tab on your website? Are you ready for an international discovery day process, which is very different from a U.S. discovery day? Are international franchise expos good places to invest to find country licensees, which typically must have a large amount of capital and infrastructure in place to acquire and develop your franchise in their country? The International Franchise Expo each June in New York City is good place to show your brand to people from many countries and to get feedback on cultural issues.
- **Fees and royalties:** How will you determine the fees and royalties for a country in comparison to what you charge at home? Are you ready to negotiate fees, terms and conditions as well as a development schedule for the next five to 10 years to come? Franchise systems based in the United States are not usually equipped or understand the negotiation process.
- **Country-specific issues:** Do you know the country in question, competition, government and legal issues? The language issues? Does your brand and franchise product fit into the culture of other countries?

SOCIAL MEDIA

Much of the rest of the world has discovered social media in a big way. In some emerging markets a very large percentage of the population is on Facebook. Local franchises use Facebook to market to middle- and upper-class consumers. Fifty-five percent of the population of Australia, 43 percent of the population of Brazil, 59 percent of the population of Singapore and 57 percent of the population of the United Kingdom is on Facebook. The number is 56 percent of the U.S. population, according to Franchise Update, "Going Global – Socially," by William Edwards and Heather Edwards, Issue II, 2014. Updated data supplied by EGS.

WHAT YOU SHOULD LOOK FOR IN YOUR INTERNATIONAL LICENSEES?

- A passion for and understanding of your business,
- A successful business with knowledge in your sector,
- Good reputation in the country,
- Experienced food and beverage operations management,
- Access to suitable real estate,
- Marketing oriented company,
- Capital to start and grow your franchise in their country.

WHAT WILL THE INTERNATIONAL LICENSEE CANDIDATE LOOK FOR IN YOUR FRANCHISE?

- They will look at your international results to date, if any.
- They will look closely at your unit economics.
- They will evaluate your ability to train and support them.
- They will look at the business experience of the senior team at your franchise.
- They will evaluate the difference between your specific brand and others in the sector, especially in their country.
- They will probably ask to see your U.S. FDD.
- They will look at the systems and resources that lets your business succeed on a unit and franchisor level.
- And will determine if your franchise can produce an acceptable ROI.

Going international can be a very lucrative option in franchising; however, it comes with a commitment and a price. The financial reward comes after the agreement and the local franchise locations are in place and established so the royalties are coming back to the franchisor. This takes time and investment to succeed. ■



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