

International Expansion: Do Opportunities Outweigh Challenges?

By William Edwards, CFE

The landscape of franchising is rapidly changing. Consider:

- More than 900 new franchised concepts have been added to the existing base of more than 2,000 concepts, according to FRANData Corp.
- The housing credit crunch may negatively impact the available consumer home equity to make new franchise investments.
- Foreign franchisors are entering the U.S. market and competing for the available unit franchisee candidate pool.

In a time when there are more and more franchises vying for U.S. unit franchisee candidates to choose from and the U.S. credit crisis is not helping you find, sign and fund unit franchisees, is it a good time to look again at your international development effort? Or is it time to start such an effort? Why should you consider "going global" now? What do you need to go global with your franchise?

Has international development changed in recent years? What should you be concerned about when taking your brand into foreign countries?

Recent member surveys indicate that more than 500 IFA franchisor members are expanding internationally. More are planning to go global in the next few years.

International Opportunity: Advantages of Going Global

Let's start by looking at the opportunities that global development can offer you as a franchisor to grow your network and your bottom line. You can:

- Add new sources of franchise fees, royalties and product sales,
- Reduce dependence on the U.S. market: Help offset declining U.S. unit franchise sales and competition from other franchises in your sector,
- Leverage your existing technology, know-how and intellectual property. You have already developed and proven these resources so why not use them in other countries?
- Award more franchises at home by being global. If you are global, you are viewed as more substantial than a "local" U.S. competitor,
- Gain a competitive edge in your home market by bringing back to the United States new ideas from your international licensees,
- Enjoy strategic advantages in having a global franchise network, i.e. global accounts versus national accounts can bring your U.S. franchisees more benefits, and,
- You can gain improved economies of scale through increased network growth: Use your staff and other resources across a

wider range of franchised locations generating royalties and fees.

What's more, the U.S. dollar exchange rate makes your franchise a bargain for European buyers. An initial master franchise fee of US \$300,000 is equivalent to about 220,000 Euros today. This is a decline in Euros to buy the master franchise of 30 percent from just a couple of years ago. No wonder many European companies are coming to the United States seeking to buy franchises for their countries.

Challenges Franchisors Face When Going Global

Above are some fine reasons why you should consider going global for the first time or increasing your international development. But what about the challenges?

Here are some issues you must consider:

1. Expanding outside your home country efficiently and cost-effectively: Without a plan and priorities you can find yourself spending lots of money with little results.
2. Defining the benefits, risks, opportunities and challenges: What are the specific benefits for your franchise? What are the resources needed for your franchise that you have or have to add and when? What will this effort take away from your U.S. growth?
3. Defining the time and cost it will take to succeed outside your home country: That all important financial model that shows your investment and expected return over time.
4. Protecting your brand and intellectual property: An up-front investment in trademarks is essential to maintain your brand value.
5. The added cost of training and support across many time zones: Budget for this up front and include it in your initial master franchise fee.
6. Deciding where to take your franchise to get the best return on your investment: See the chart on the next page for a comparison of countries to take your franchise to.
7. Picking the right master franchisees: The most difficult and time-consuming task of all in the global development of your franchise and the task most often not done properly. Take your time to find, evaluate and conduct due diligence on master-franchise candidates.
8. How will your franchise go global? Master franchising to one company per country? Area or province franchising larger countries such as China, Germany and the United Kingdom? Direct franchising which means more up-front investment on

(Continued on page 38)

Which Countries Are Best?

(Continued from page 37)

your part but more control and more profits long term. Maybe your franchise will use more than one of these market-entry structures. Take time to evaluate what each development method means to your franchise in terms of up-front investment and long-term return.

9. While in the past U.S. franchises were the only ones going global, in recent years we have seen a flood of Australian, European and Latin American franchisors also entering world markets. Now there is competition with these companies in many countries, including the United States.

What Does a Franchise Need to Go Global?

Although we are starting to see even franchises with less than 200 units in the United States going global, all franchisors who venture outside the country need to have common aspects of their business to hope to succeed in today's global business environment.

1. Senior management must see international as an important business growth strategy and commit the necessary financial and people resources to this strategy to succeed.
2. A pro-active business plan, not just reacting to e-mails from Nigeria, China, Pakistan and India. And do not expect to make money for a few years. This is an investment.
3. A good track record of success in the United States: Your UFOC needs to be a marketing document for your international development. Good master-franchisee candidates will want to see that you are successful as a franchisor and as a company.
4. Trademarks, trademarks, and trademarks: Start applying for trademarks first to maintain control of your brand in other countries. Do this before you market your franchise in other countries so you do not lose your brand name.
5. Be sure you have strong training,

Country	Open To New Foreign Concepts	Market Size	Ease Of Entry	Legal Concerns	Government Involvement	Country Ranking
United Kingdom	1	1	2	2	1	1.4
USA	1	1	1	2	2	1.4
Ireland	1	4	1	1	1	1.6
Scandinavia	1	2	1	2	2	1.6
South Africa	1	2	1	2	2	1.6
Turkey	2	2	1	2	1	1.6
Urban China	1	1	2	2	2	1.6
Brazil	2	1	2	2	2	1.8
Canada	1	2	2	2	2	1.8
Japan	2	1	2	2	2	1.8
Mexico	2	1	2	2	2	1.8
Middle East Region	1	2	2	2	2	1.8
Vietnam	1	2	2	2	2	1.8
France	2	1	3	2	2	2.0
Hungary	1	3	2	2	2	2.0
South Korea	2	2	2	2	2	2.0
Australia	2	2	3	2	2	2.2
Malaysia	2	2	3	2	3	2.4
Russia	2	2	3	3	3	2.6

support and reporting procedures so you can ensure your franchise is done properly in other countries.

6. Your intranet is your most powerful global development tool and the best way to control how your business is developed in other countries. It is also a way to cut down on the 2:00 a.m. phone calls for support from foreign licensees.

How Do Countries Rank as Places to Take Your Franchise Today?

Once you have made that decision to go global with your franchise, where are the best countries? The ones most open to new, foreign businesses? The answers may surprise you.

The information in the chart above is an analysis of a variety of global surveys done by the World Bank, International Finance Corporation, the *Wall Street Journal*, the Heritage Group and, of course, lots of on the ground operating experience.

In this ranking, done quarterly since 2001, a '1' is best and a '4' is worst. A ranking of 1-2 is preferred.

Lets look at two countries as places to take U.S. franchises today. Although Australia is one of the most franchised countries--even more of their dollar is spent at franchise locations--in recent years it has become more difficult for U.S. franchisors to find Australian master franchisees who are willing to pay an acceptable initial license fee that will justify the training, support and travel needed to ensure the business starts and

grows properly.

Urban China, on the other hand, is home to about 200 million middle-class consumers who have an appetite for the brands, quality and convenience U.S. franchises bring. The traditional food franchises are already in China. We are now seeing an influx of training retail and service franchises. And more provincial licenses than country licenses.

Where to Go for More Information and Help When Going Global

The International Franchise Association's Global Marketing Committee keeps track of global franchising trends and schedules periodic franchise trade missions to key countries. The IFA Supplier Forum has consultants and attorneys with actual experience on the ground in many countries.

Watch IFA's Web site, www.franchise.org, for notices of international training courses--preferably Certified Franchise Executive credit courses--that are designed to help you to learn from experts what has worked and has not worked in global franchise development.

In recent years, the United States has been a strong voice for changing laws and regulations in other countries that were not beneficial to U.S. franchisors. The new Chinese franchise regulations, while not perfect, are much more positive and balanced for U.S. franchisors seeking to enter this market with a rapidly growing middle class. IFA members had a strong influence on these changes.

If you prepare for going global properly, carefully choose the right countries for your franchise, and carefully select your master franchisee or franchisees in other countries, there are more opportunities than challenges today to finally realize the full global potential of your franchise. ■



William Edwards, CFE, is CEO of Edwards Global Services, Inc. He can be reached at bedwards@edwardsglobal.com or telephone 949-375-1896.