

# SMALL BUSINESS

ENTERPRISE | By Richard Gibson

## U.S. Franchises Find Opportunity to Grow Abroad

*Saturated Home Economy Encourages Subway, McDonald's, Others to Look Overseas, Where Investors Often Provide the Bankroll*

**A**s a sluggish economy continues to hobble business in the U.S., some franchise companies are still finding willing investors and growth opportunities overseas.

**Curves International Inc.** and sandwich maker Subway have reported double-digit expansion abroad, particularly in places such as Brazil and Central and Eastern Europe. Other hot markets for franchises include India and China, where new middle-class customers are emerging.

As is also true in boom times, the franchising push in many cases is largely the result of saturation in the U.S. **McDonald's Corp.**, which pioneered the global spread of American-made franchised brands, has opened 286 units abroad so far this year, compared with just 53 domestically. Last year's growth had a similar overseas tilt.

One advantage in looking abroad during tough times is that the third-party entrepreneurs or business groups American franchisers often rely on overseas—so called master franchisees—usually bankroll the operation themselves. That's a marked difference from the U.S., where many franchisers seek bank loans.

Franchising growth in the



For overseas investors, big U.S. chains are attractive because of their brand recognition and proven profit potential. Above, a McDonald's outlet in Shenyang in northeast China's Liaoning province in February.

U.S. has slowed in the past year because of tight credit. Most overseas licensees "are not buying business on credit but are using internal funds," says William Edwards, whose Edwards Global Services Inc., based in Irvine, Calif., helps franchisers establish themselves internationally.

Master franchisees typically pay a significant fee to acquire a territory or country where they operate largely as a mini-franchiser, selling franchises, overseeing those units

styles have fueled some of its overseas expansion. In Japan, for example, tradition dictated that aging parents be cared for by the wife of a family's oldest son. But today, many of those women have taken jobs outside the home.

"They're more engaged in the professional world as well as the society, so they are busier," says Yoshino Nakajima, Home Instead's chief development officer. Moreover, the Omaha, Neb., firm's surveys find that many Japanese seniors don't want to be a burden on their children, she says, so families are turning to Home Instead to bring professional caregivers into their homes.

The franchiser has 149 locations in Japan alone—more than half of its 268 international franchises, which are spread across 14 countries. That compares with 576 locations in the U.S. In the past year the company's foreign expansion has outstripped U.S. growth—55 units compared with 25. Ms. Nakajima says the firm's overseas growth through 2025 is expected to be two to three times faster than that in North America.

Evolving lifestyles, particularly among emerging middle classes, also are creating overseas growth opportunities for Curves International, the wom-

en's fitness-center chain. The Woodway, Texas, company opened 612 centers outside North America from February 2008 to this month. That compares with just 19 in the U.S. and Canada—a market that chief operating officer Jim Johnson says became saturated several years ago.

Curves hooked up with master franchisees who, in Mr. Johnson's words, "have got the funds and the passion" to grow. Japan is Curves' biggest overseas market, with 744 locations. The company plans to enter India this fall. It opened its first unit in China in May; Chinese law requires that a foreign franchiser operate a single unit successfully before it will be allowed to expand there.

"We bring something to those markets that is totally foreign," Mr. Johnson says of Curves' women-only exercise concept. That could have significant appeal in Muslim countries, where religious custom often requires that women have separate public facilities from men.

One hurdle that Curves has been encountering lately, particularly in the Middle East, is the scarcity of commercial property. The same holds true in England and Ireland, Mr. Johnson says.