



12 WAYS TO FAIL AT INTERNATIONAL FRANCHISING

Finding the right franchisee is the most important part of the expansion process. The wrong one can do long-term and very expensive damage to your brand

If you've gotten past that title, we'll assume that you don't really want to fail in your international expansion efforts, but you do want to learn what to watch out for to avoid such failure. The points highlighted below are examples of the assumptions some franchisors have made about growing internationally. They're precisely the things you don't want to do. Under each point are suggestions that change this list to "a dozen ways to succeed in international franchising".

“

ONE OF THE BEST WAYS TO FOSTER A LOYAL FOLLOWING OF CUSTOMERS THAT HAVE THE POTENTIAL TO BECOME FRANCHISEES IS TO CREATE A PRODUCT OR SERVICE THAT HAS A POSITIVE IMPACT ON THE CUSTOMERS' LIVES"

1 "ANY CONCEPT CAN EXPAND INTERNATIONALLY"

Franchising is based on having a proven, profitable system that can be replicated in a variety of different conditions. If the franchisor can't point to success stories that show adaptability in multiple situations at home, it isn't ready to try to sell that concept internationally.

2 "INTERNATIONAL IS IN OUR GOALS...SOMEWHERE"

Senior management must be fully committed to an international strategy, and accept that it may very well take longer and cost more than those rosy first dreams would indicate. That commitment must extend throughout the organization because many managers will see international preparation as a distraction from their familiar ways of operating.

3 "THAT GUY IN KANSAS IS GREAT – PUT HIM IN CHARGE OF OUR INTERNATIONAL BUSINESS"

There is a long learning curve

in international franchising. The franchisor can get ahead of that by hiring an internationally-experienced manager, or an international consultant, to guide its efforts. International franchisees clearly deserve that level of expertise.

4 "HOW DIFFERENT CAN FRANCHISE LAWS BE?"

Legal and tax considerations are very different around the world. Even the basic international franchise agreement will have various elements that are not in a domestic agreement. Taxes, particularly local withholding tax requirements, must also be analyzed. Legal counsel in the home country can lead this process but he must have international franchising experience and must consult with local counsel in the targeted markets. In a recent conversation with a US franchisor planning to enter their first international market, he said "Our lawyer in our home town said he could handle it so we don't need local counsel in Brazil." That's looking for trouble.

5 "IT WORKS HERE, SO WHY WOULDN'T IT WORK THERE?"

It is a sure bet that changes will have to be made internationally. They may be in unit design, in ingredients, in equipment, in menu or service offerings, in marketing messages or in multiple other areas. The sooner everyone understands and accepts this, the better.

6 "WE'LL JUST IMPORT EVERYTHING"

One of the major contributors to international restaurant failure is not properly developing the supply chain in advance. Usually a mix of imported and local ingredients will provide the best combination of quality, local taste and unit economics, but specialized skills are needed to accomplish that mix. When asked what local adaptations they were willing to make to their ingredient specs, a recent entrant into international franchising replied, "We can't change anything. All of our ingredients are proprietary." That approach won't work for very long. In addition, some markets require a specified percentage of local content or restrict genetically modified (GMO) ingredients, while others may require Halal certification or different labels or shelf life.

7 "WE'VE GOTTEN A LOT OF CALLS – FOCUS ON THOSE MARKETS"

How many times have franchisors accepted that tempting check for development rights, and only then begin to figure out how to support the deal? The best way to approach international development is to go through a thorough process to select, prioritize and research targeted countries.

8 "SIGN THAT PROSPECTIVE FRANCHISEE – HIS QUALIFICATIONS ARE CLOSE ENOUGH AND HE'S READY NOW"

Finding the right franchisee is the most important part of the expansion process. The wrong one can do long-term and very expensive damage to your brand. On the other hand, the right one – carefully selected from among a pool of qualified candidates – can set the stage for healthy and mutually beneficial growth over many years.

9 "JUST SIGN DEALS – IT'LL BE SOMEONE ELSE'S PROBLEM LATER IF THE LOCATIONS DON'T OPEN"

Some franchisors try to sign as many big-number development deals as they can, both for the fees and for the market value assigned to such agreements. They may even sound feasible at the time, but a study by Cornell University among food franchisors indicated that within their sample only 11% met their full development commitment. Development must be based on a disciplined process with realistic expectations on both sides.

10 "IT'S EXPENSIVE TO TRAVEL THERE; ONE TRIP A YEAR SHOULD BE ENOUGH"

The franchisee is investing his capital in what he expects to be a profitable venture. The franchisor's responsibility is to use its proven systems to help both parties achieve mutual success. The franchisor should provide the same level of support internationally that it provides to its domestic franchisees.

11 "KEEP GROWING; MORE LOCATIONS WILL FIX THE FRANCHISEE'S P&L"

It seems very basic, but focus must always be on unit economics. If the franchisee is not making money at the unit level, growth will stop and legal problems may begin. All the available tools must be used to help ensure good unit profitability.

12 "WE DON'T HAVE TIME TO DEVELOP A PLAN; JUST WING IT"

If the above points haven't proven the fallacy of this idea, maybe nothing will. There's a saying attributed to retired Army General Jack Bergman that "there's never enough time to do it right, but there's always enough time to do it over". A comprehensive plan should be developed to cover everything from market and franchisee selection, to staffing for franchisee support, to budgeting, and everything in between.



ABOUT THE AUTHOR

Jim Hartenstein is a former SVP-International at both Wendy's and Little Caesars Pizza and has been responsible for opening hundreds of restaurants around the world. He is now a consultant assisting franchisors, large franchisees, private equity groups and Boards of Directors with their international expansion planning and implementation. He has been a member of the International Committee of the International Franchise Association (IFA) and is currently on the Advisory Council of the Global Restaurant Leadership Conference. Contact him at jim@hartensteinglobal.com or for more information, see www.hartensteinglobal.com.

