




BALANCING STANDARDIZATION AND LOCALIZATION

By Jim Hartenstein, Hartenstein Global Consulting



“My market is unique.”
It doesn’t matter
which country is being
discussed – that claim
will always be made, and
it will always be true.

If there is one certainty in international expansion, it is that some degree of localization will be required. But if there is one corresponding certainty in franchising, it is that standardization will also be required.

So, how can those two seemingly contradictory requirements be satisfied? Clearly, there are things that must be standardized while at the same time there are other things that must be localized — the trick is in determining where to draw the line.

Standardization: Advantages and Disadvantages

It is generally agreed that standardization has three primary benefits:

- **Brand image:** The thinking and experience that created a successful brand can be leveraged across multiple markets. Things like the basic operating procedures, product categories, core design elements and others don't need to be reinvented in every new situation.
- **Cost efficiencies:** Standardization allows for higher volumes, usually resulting in lower costs. This can apply to ingredient costs, to training and other support materials, to equipment, to building design, and to many other aspects of the business.
- **Innovation:** Doesn't standardization seem to be contrary to innovation? In some cases, standardization can actually be an enabler of innovation. By standardizing a given brand element, for example a piece of equipment or a POS system, innovation in one market can be introduced more quickly in other markets where it wouldn't otherwise be available.

But standardization also has some disadvantages:

- The franchisor's brand can be seen as trying to impose values or standards on the market that are not compatible with local customs or practices and consumers may react negatively.
- Although cost benefits are often an advantage of standardization, it can also sometimes negatively affect costs. Think of the franchisor that insists on the use of a specific product that must be shipped



from the home country even though a suitable local substitute is available at a lower cost.

- Excessive focus on standardization can create a culture of inflexibility in the franchisor's organization.

Localization: Advantages and Disadvantages

Let's move on to localization. What are some benefits of localization?

- The franchisor's brand is given credit for recognizing local needs. Case studies have been written about brands that attribute their success in certain new markets to their decision to make significant changes in their concepts and the resulting recognition and acceptance of those changes by local consumers.
- The concept can become more accessible to local customers. While some consumers may be reluctant to try something completely new and different, they can be eased into an initial trial by including some localized elements that are more familiar.
- It is often possible to source products, equipment, and other materials locally at a lower cost.

And, to continue this comparative analysis, what are some of the disadvantages of localization?

- Poor execution may result from a franchisor's lack of a clear understanding of the local need.
- The time required by the franchisor to understand and prepare for the local differences may be perceived by the franchisee as an unacceptable delay in the project.
- Excessive focus on localization may dilute brand identity and create a separation from the brand's underlying core attributes.

How to Manage Localization Needs

Some things *must* be localized, while others may be discretionary. Language, taxes, and legal compliance must be localized, as well as certain ingredients or other items that must comply with local cultural or regulatory requirements. Other things are more discretionary, including product offerings beyond the brand's core, local marketing, some aspects of store design and others. And while some might consider it discretionary, most franchisors will agree that development of localized brand logos is a necessity in some specific cases.



Proposals for localization can come from many sources: franchisor, franchisee, consumer, supplier, lawyer, marketing agency, and others. Once the proposal is developed, though, it becomes the franchisor's responsibility to either approve it or deny it. And the franchisor must be careful to always retain full control over all Intellectual Property, contracts, product specs, and core brand elements, in whatever form they might take.

This then leads to the franchisor's ability to manage this process, because the franchisor controls the final decision. Does the franchisor really accept the idea that some aspects of his concept may need to be adapted in international markets? Unfortunately, some franchisors don't, and those are the ones more likely to fail. If it is accepted, though, the next question is about who in the franchisor's organization will be making the decision. Will it be staff people whose only experience is in the home market, or will it involve internationally experienced people, whether in-house or outside consultants? Unfortunately, it isn't unusual to hear "that will kill the brand" as the home market staffer's response to a localization proposal. There must be an objective process to

ask and consider "will it really kill the brand?" — or is it simply a case of "not invented here." To be clear, though, there will be proposals that are, in fact, detrimental to the brand as well as those that are beneficial.

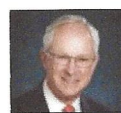
Localization and Standardization in a COVID-19 World

As with just about everything else, COVID-19 has affected how franchisors and franchisees have had to deal with standardization and localization. COVID-19 created a world with very diverse conditions that often require accelerated localization without the usual level of franchisor involvement. This was caused by regulatory requirements, consumer anxieties, travel restrictions, less on-site support, etc. Franchisors were forced to allow such adaptation and to understand that multi-country standardization might have to be suspended, at least temporarily, to maintain some level of business continuity. Increased reliance on drive-thru and take-away, as well as a focus on digital solutions, process automation, and the growth of ghost kitchens have been just a few of the results of these conditions. It is still too

early to know which of these practices might become the new standards, but COVID-19 has caused an increased understanding of different approaches to running successful businesses.

To Localize or To Standardize, That is The Question...

As we've seen, there will always be a need for a standardized franchise concept to localize itself to some extent in international markets. The process will usually be a routine part of doing business globally, but as the world has seen recently, these decisions can also be forced on a franchise system very quickly. The key is balance. Going too far toward standardization or too far toward localization can risk overall failure, but there is no scientific measuring tool to determine that balance. It is often said that the franchisor is the expert in his brand while the franchisee is the expert in his market — it is up to experienced people on both sides to understand each other's needs, weigh the pros and cons of each, and apply their own skills and judgement to determine that optimal balance. ☺



Jim Hartenstein is the managing director for Hartenstein Global Consulting. He 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 an international franchising consultant and a member of the Board of Directors of a Mexico-based restaurant franchise operating in four countries, and a Saudi Arabia-based restaurant company. He is a member of the IFA International Committee and moderated an International Roundtable on the topic of "Standardization vs Localization" at the IFA 2020 Convention. For more information about International Franchise Association (IFA) supplier member Hartenstein Global Consulting, visit franchise.org/suppliers/hartenstein-global-consulting-llc.