



# Common Errors in International Franchising

*If there is one single key element of an international support plan, it is that internationally-experienced people must lead it.*

**BY JIM HARTENSTEIN**

**T**hose who cannot remember the past are condemned to repeat it, wrote the philosopher George Santayana, and franchise executives would be well-served to heed his advice. If we don't learn from others, we're likely to make the same mistakes they did or miss the opportunities they found.

There is a long list of errors in international franchising committed by experienced operators and newcomers alike. Experienced operators may have a base of international locations they are trying to relaunch and newer franchisors may be venturing outside their home country for the first time.

Seeing these in print, one may think "these are so obvious – there's no way we would make these mistakes." But the histories of a remarkable number of franchisors, of all sizes and all levels of sophistication, reflect multiple cases of exactly these same errors at some point in their international expansion efforts. It is a sure bet that franchisors will continue to commit some aspect of these same errors in the future.

## **ERROR NO. 1: LACK OF GENUINE COMMITMENT BY SENIOR MANAGEMENT**

International expansion seems to be in style these days. Every industry publication has articles about franchisors growing internationally. But whatever the reason, a franchisor's CEO has to be fully committed to it. There are many cases of CEOs who say they are, only to have their actions tell a different story.

Think about the CEO who makes statements about a commitment to international expansion, but then doesn't fund an international team or has his head of international development reporting to someone at a lower level. Or imagine a CEO whose statements are clearly home-country focused with no mention of international expansion.

Contrast that with the CEO who includes the head of international in his executive leadership team and challenges all corporate departments to support international growth, even including related elements in their incentive plans. It's

that same CEO who doesn't fail to mention the international aspects of new corporate initiatives. It's one thing to "talk the talk," but the CEO also has to "walk it like she talks it."

The CEO's "vibe" is immediately picked up by the team, and if it isn't clearly and fully supportive of international initiatives, then the corporate staff support quickly dwindles.

## **ERROR NO. 2: LACK OF A LONG-TERM INTERNATIONAL SUPPORT PLAN**

Setting up a support plan can be challenging, based on the level of international presence that currently exists in the franchisor's business. The established international franchisor has an advantage because it presumably already has some level of support dedicated to the existing international franchisees that is fully or partially funded by revenues generated by those same franchisees. The concepts just beginning to break out of their home countries have a different challenge: they have to fund a support plan in advance of any significant international revenue generation.

At any level of an international strategy, however, a plan must be in place to support international franchisees. Such support may not immediately be equal to that provided for domestic franchisees, but the objective must be to get to a similar level relatively quickly. Offering to sell franchise licenses without such a plan is a clear disservice to any prospective franchisee and can result in everything from poor operations to financial difficulties for both parties to significant legal expenses.

The plan can be developed in-house or by using outside consultants, but it should not be prepared by anyone who does not have extensive international franchising experience. A franchisee support plan is absolutely essential, and how that plan is implemented can lead to the next common error.

## **ERROR NO. 3: LEVERAGING HOME-COUNTRY RATHER THAN INTERNATIONALLY FOCUSED STAFF**

If there is one single key element of an international support plan, it is that internationally-experienced people must lead it. It might be just one person to start, or it might even be an

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outside consultant, but many franchisors mistakenly take a strong home-grown manager and put him in a position to lead international expansion. That can work occasionally, but it is more likely to fail.

In the early days, financial considerations will often obligate the franchisor to leverage existing home-country staff to assist the International leader. That approach is manageable as a practical, real-world solution, but the plan should anticipate staffing with full-time internationally experienced support people as soon as possible.

There are too many examples of home-country staff being tasked with managing the international business. These staffers often have little or no personal experience outside the home country and even less spare time to devote to something they don't understand. It may also be something that requires approaches that differ from those they may have personally developed for their domestic market and further, they may know that its success or failure won't affect their compensation.

#### **ERROR NO. 4: REACTIVE/OPPORTUNISTIC RATHER THAN PROACTIVE/TARGETED DEVELOPMENT**

It's difficult to say "no" when a call comes in with an offer of a large development fee. But a predetermined, pro-active development strategy is another one of those essential elements in international expansion that is too often put aside when reacting to that tempting fee offer.

As part of the vision used to gain CEO commitment and an appropriate support structure, the franchisor must have a long-term international development strategy.

This is a multi-faceted process but the first step is determining which regions and countries to target. One way

to think of that is to put all the countries in the world into the top of a funnel. They are then put through a series of filters related to market size, industry conditions and other criteria that eliminate certain countries with the finalist countries emerging from the bottom of the funnel. Those finalists are then ranked in priority order with a reasonable number of new market entries projected annually for the next five to 10 years and quantified in terms of locations, revenue and support costs.

Then, each year, a determined number of those countries should undergo a more thorough new market analysis to validate the original assumptions and to determine if there are any major obstacles related to entry. This way, the franchisor has a fairly good idea about what is involved in operating in that market and only once the new market analysis is done should the franchisor begin to recruit prospective franchisees. Otherwise, the franchisor runs the big risk of accepting the fee from that tempting cold call without any idea about what it's getting into.

These are just four of the common errors that franchisors have committed over the years as they expand internationally. They seem very basic but they are seen time and again. The hope is that by pointing these out, franchisors will learn from the mistakes of others and not repeat them – or at least repeat them less often. ■



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