

Planning the key to franchise success

Any franchisor will attest that an unexpected email from China or India offering US\$250,000 for the right to sell franchises in one of those countries is tempting, particularly when overseeing the expansion on your own is such hard work.

But signing over a master franchise agreement for a big cheque is rarely the money spinner it appears to be.

Few franchise operations overseas turn a profit in the first few years and serious damage can be done to the brand if an unsuitable operator is handed the controls.

At the same time, the resources required to train the overseas franchisor and make sure the correct systems in place are a drain on cash and time. At best, head office is consumed. At worst, domestic operations are jeopardised.

Rod Young, managing director of DC Strategy, says: "Franchisors don't understand that the majority of that US\$250,000 fee will be used getting the master franchisee off the ground."

"It's not as simple as, 'Here's my idea, business plan, logo and trademark, go and replicate my business.'"

"That's a very naive and opportunistic view and the vast majority of franchises that are granted like that will fail."

Janine Allis, founder of Boost juice bars, has spent the last few years planning and strategising Boost's expansion overseas. Boost is now operating in Hong Kong, Macau, Singapore and Indonesia, Kuwait, Estonia, the UK, Portugal, Chile and South Africa, and Boost stores are about to open in Dubai and Thailand.

Far from taking the money and running, Allis expects to spend between \$170,000 and \$220,000 in each country training the master franchisor, complying with local laws, and organising supply chain logistics.

"People who think they can do a quick fix are going about it the wrong way. What you're after is long term success and a loyalty fee," Allis says.

Franchisors are going overseas earlier and more often. Just over 27% of Australia's franchises operate internationally, according to a recent report by Griffith University and the Franchising Council of Australia, and franchisors hold an average of just 29 stores before pushing overseas. This is a concern because it indicates that franchisors are going global well before they need to.

"Capital and management needs to be committed to an overseas strategy - these are resources that are needed at home if you're still growing in Australia," Mr Young says.

Franchising lends itself to global expansion because its systems can be replicated, but it is a mistake to believe that the systems that work in Australia will work unaltered overseas.

What catches inexperienced franchisors out are supply chain logistics, different

tastes and demands, the need to tailor brands to the local market, and the long hours that are inevitably required to train staff.

On top of all of these pitfalls is the risk that franchisors will choose the wrong business model. Those succeeding overseas have learned to structure their entry around the market they operate in.

When \$20-million cleaning franchise AMC Commercial Cleaning entered China, for example, it created a joint venture vehicle with a Chinese partner, which holds master franchise agreements governing individual three provinces - Guangdong, Beijing and Fujin.

Selling off the rights to operate across the entire country would have been nonsensical because winning commercial contracts in China is all about relationships with local bureaucrats and businessmen.

"You won't see a list of tenders printed in the local newspaper," says Stephen Coade, AMC's founder.

On top of this, Coade learned that the franchise model that works in Australia - lots of small franchises operating like small businesses under the one master franchise umbrella - is useless in China because few Chinese own cars.

"It's not like you can set up an individual with a vacuum cleaner and a mop and a bucket and know that they'll make \$70,000 a year from 4-5 contracts. You've got to target commercial venues like hospitals, and that means that each master franchisor operates an entire province," Coade says.

The founder of waterless car washing franchise Ecowash Mobile, Jim Cornish, has set up parent companies and head offices in each of the regions his franchise operates in because it signals that he is serious about doing business in those regions.

He formed a joint venture with a Saudi Arabian company to spearhead the expansion in the Middle East. The joint venture entity holds the master franchise for the entire region and sells master franchise agreements to countries within the Middle East - Bahrain, Jordan, the United Arab Emirates and Alain, so far. Its head office and general manager is in Saudi Arabia.

He followed the same structure in Europe. Ecowash Europe's head office is located in Dublin.

Choosing the right master franchisor is as important as entering the right country - a lesson that the experts say is often learned too late.

Peter Buberis, franchise specialist and partner at DLA Philips Fox, says: "If someone comes along that looks half credible and appears to have financial backing, the temptation is to grab that person, cross that country off the slate, and move on."

"The problem is, while that person's intentions might be genuine, he or she may not understand what franchising is about and have a sensible methodology to achieve that."

It's not just damage to the brand and a botched market entry that's at stake. Getting out of master franchise agreements can be a nightmare.

Cornish says he receives hundreds of email inquiries from potential franchisors all

over the world every month.

"The key is to minimise the risk of choosing a bad egg," Cornish says.

His screening process is lengthy. Questionnaires detailing backgrounds and business and management experience are sent out. Once past that hurdle, potential franchisors are thrown into the field to see how they cope as an employee.

Cornish says much more important than business credentials is enthusiasm and nous. He quizzes them about self-motivation, their goals in life, why they want to operate franchises and grades them according to how easily they'd slip into the Ecowash culture.

"You've got to be able to sit down and have a beer with them, to have a strong enough relationship to be able to work through any problems," Cornish says.

Staffing issues can pose big challenges. The founder of wrap chain Trios, David Elia, assumed his franchises in Saudi Arabia would be staffed with locals. He learned that in the Middle East, most workers are foreigners employed on work visas. It's up to business owners to bring them in from overseas and manage the paperwork.

"Most employees come from the Philippines. The mindset is that you own businesses, you don't work in them. Not many locals do the hard work," Elia says.

Coade was faced with a different staffing challenge in China. He had no idea before setting up in Guangdong province that running a cleaning business meant by implication that he was charged with feeding and housing his employees.

"Staff move to the cities from rural areas looking for work and employers put them up in dormitory style accommodation. That's just the way it works. Most only go home to see their families for Chinese New Year," Coade says.

Buberis urges franchisors planning a push overseas to strategise their market entry.

"Years could be wasted on a master franchisee who's been treading water," he says.

Ensuring there is an out if the master franchisee underperforms is vital.

Inserting performance criteria into master franchise agreements is the norm, but the key is to ensure that the benchmarks are not just the number of stores the master franchisor vows to open.

"There's no point in setting up 15 stores that make nominal profits. Link profits or revenue to the number of stores," Buberis says.

It's also important to agree on courses of action if the master franchisee fails to reach his or her performance criteria. Promise to spend more money on training, and sit down with the franchisee and plan how to make the business a success.

"By the time you've set up franchises in other countries you've invested a lot of time and money in someone. Terminating that agreement is a worst case scenario," Buberis says.

Consider expanding via joint ventures or company owned stores before signing a master franchise agreement, Young and Buberis urge.

"Consider saying to an individual in another country, 'We will give you the right to set up a whole lot of franchises in that country but you have to own them or you must be at least a 50% owner of them.'"

"That can be better than finding Jo Blow who appeared to be a decent fellow but who has to find 20 individuals to set up franchises in his territory. If an individual has the capital to set up a whole lot of stores themselves, not only do you get the market penetration but you've aligned their incentives," Buberis says.

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