Are you ready to go global?

As challenging as entering the international franchising market can be, the rewards can be substantial.

By C. Russell Sumrall

Are you ready to go global? As franchise companies begin to grow, this question will likely arise from you, potential franchisees, or other interested parties such as suppliers.

A poll of several small and medium franchisors revealed most began internationally after being asked by someone if they could "have the franchise for their country."

Sure, it sounds great to say you have an "international company." And yes, there is easy justification for "exotic" international travel, but these factors are emotional reasons, surely not business ones for taking your franchised brand to the international marketplace. The business considerations for taking international expansion are enormous.

To answer "yes" to the question of international expansion, you should first consider many factors through a rigorous self-examination and a disciplined analysis of the international opportunity.

Assess Your Company

When the question of international expansion arises, begin by assessing your company's strengths and weaknesses to determine your preparedness for international expansion. Whether you complete the assessment yourself or use outside resources, your evaluation should include: competitive capabilities in your domestic market; motivation for going international; commitment of owners and top management to international expansion; product readiness for foreign markets; skill, knowledge, and resources to expand; and, experience and training. This assessment is only a good beginning, but there is much more to consider before a sound decision can be reached.

Strategic Considerations

Can you see the big picture for your franchise? A place to begin is to segment the world. You can do this geographically, culturally, or demographically. Use the answers to determine how your business can gain the most success.

Regardless of your segmentation method, you will have a smaller set of countries to analyze the franchise market potential and the target consumer segments. Entering any new market is costly, stressful, and time-consuming, and once there the demand for your product needs to be sufficient to ensure the effort is financially rewarding. Many costs to launch a country are one-time expenses. If the initial start-up costs were amortizable over your future business, it would certainly be wiser to seek markets with the potential of more shops instead of less. Determining the potential for your franchise is usually more art than science. Unless your business is first to market, there is often the opportunity to use a proven and practical method to gauge potential for your business. Where possible, look at the number of similar or complementary businesses. For example, if a reasonable ratio of similar shops to yours is 2:1 and there are 50 similar shops operating today, then it is reasonable to assume a fair potential of 25 shops for your business. With that conclusion, using 25 shops as your basis for financial modeling would be appropriate.

What Franchise Format Is Right?

There are a variety of formats to consider: single-unit franchises, exclusive-area development, master franchise, or hybrid sub-franchising, a method gaining popularity. Domestically, one type of franchising may be used, but for international expansion or even country-to-country a different format may be preferred.

While your domestic system may use a long-established support infrastructure that allows reasonable and effective control to manage your system, the costs involved to build the same degree of infrastructure internationally could be exorbitant. By choosing exclusive area development as your format for international expansion, you are awarding a territory of sufficient scale that the franchisee's economic model

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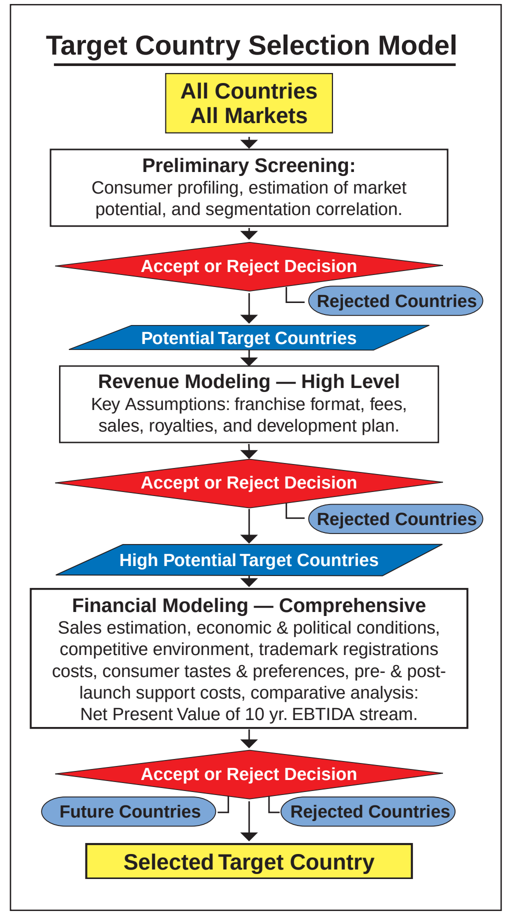
can fund a professional infrastructure to self-support their business. The franchisee can factor in functional areas such as training, marketing, and purchasing. Using this method, the franchisor provides direct and indirect (Internet portal) guidance and support to local professionals. This method supports two important tenets of successful international expansion: "Think Local—Act Local," and "Build Franchisee Self-sufficiency." Both tenets lead to high degrees of efficiency and effectiveness for the franchisee and franchisor. Area development also benefits the franchisor by usually not discounting fees or royalties.

Hybrid-subfranchising combines the desirable traits of master franchising with key elements of exclusive area development. Hybrid-subfranchising awards a large territory to a master franchisee who first must operate a minimum number of shops and maintain a minimum percent of all operated shops. Additionally, subfranchising activity is limited to exclusive area sub-developers. The rights for subfranchising are awarded jointly by the franchisor and master franchisee. Subfranchisees are granted exclusive territory with a shop development requirement that exceeds a set minimum. Many of the negatives associated with master franchising are avoided using this method.

When Should You Go Global?

Determining the timing of market entry is another strategic concern. Will going international be financially accretive for your enterprise? You will need to conduct comprehensive financial modeling over a forecast period of five to 10 years to see the financial impact of target country decisions. Ultimately, your decision should rest with a country-by-country net present value comparative analysis of EBITDA.

The process for target country selection is summarized in the model illustrated here. Utilizing a model like this will bring discipline and rigor to your international expansion that will reward your franchise with lower risks and greater rewards.



Tactical Considerations

Upon selecting the international territory, decision-making moves to a more tactical stage. You will need to consider: product positioning, product adaptation, advertising adaptation and media selection, as well as specific promotion, pricing, and distribution. Going international will lead to many obstacles and barriers you may never have encountered. Be ready. Take an agile posture, expecting and even anticipating problems.

As challenging as entering the international franchising market can be, the rewards can be substantial. Your brand's equity will grow with successful expansion. Your opportunity to emphatically say "yes" to international franchising can come after careful consideration, research, and patient rigor to process. Only then, should the world become your brand's marketplace. ■

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