

Chris Wormald, Head of Franchising at Eversheds LLR shares his experience of assisting different clients and observing the ways in which they tackle

TAKING YOUR FRANCHISE INTERNATIONAL – WHAT’S REALLY INVOLVED?

Talk to different franchisors and you will get very different answers about their approach to going international. Surveys of franchisors carried out in the UK consistency show that at least 25 percent of franchisors plan to take their brands overseas in the next three to five years. But how much of this is bravado? And does signing up a franchisee in the Republic of Ireland, with what is after all a very similar cultural and business environment, not to mention the language, really count as serious evidence of international expansion intent?

There are of course the major US brands - led by the mature fast food, car rental and hotel brands who have established massive global networks, backed by well- developed support groups of globe-trotting company personnel, often coupled with regional hub teams to develop and support their operations in Western Europe, Central Europe, Middle East and Asia/Pacific zones. London, Paris and Amsterdam, Vienna, Dubai, Singapore and Hong Kong are home to many such hub operations, charged with handling both trail blazing, new country recruitment and support to the growing markets within their reach.

Smaller businesses without the massive resources available to the major multinationals must, if they decided to go cross-border at all, find ways to cope with precisely the same objectives and barriers.

The world is a very large place and, notwithstanding the scale of potential international markets, it is perhaps not surprising that the majority of domestic, owner- managed franchisors will hesitate and turn away from the opportunity and challenge. One can readily understand that a franchise founder, with several million in the bank (or at least on paper), will hesitate to set out into the uncharted waters of international expansion. They have become comfortable and successful and do not need, at least with their own perspectives, to go further. The majority will shy away from the potential of taking their businesses to succeed in the international marketplace, even though the rewards from doing so can over time become very considerable.

It is a different matter for quoted companies. The inexorable demands of the stock market to deliver continued growth has compelled an increasing number of major British high street corporate chains, who have achieved their maximum performance and penetration in what is, after all a relatively small geographic market, to attack overseas markets with the expectation that these can unlock continuing profitable growth into the future on a much more major scale than can be achieved at home.

And then there are a few novel, niche start-ups; well conceived and executed which have and will attract almost instant international appeal. Defying the sound conventional wisdom to develop a solid and mature domestic platform first before having to cope with the challenges and not inconsiderable costs of international expansion, they recognise that failure to find a way of rapidly attacking at least the major potential overseas markets will mean they will lose out to copycat local operators, who will see their concept and - as business ideas themselves cannot be protected - are able to replicate under a different brand what they saw and attracted them on their visit to the UK

Finally, there are a relatively small number of business concepts which are designed as "country franchises" and launched with a view to immediate international franchising.

These same scenarios are replicated the world over, the vast majority of businesses limiting themselves to domestic expansion in their own or immediately neighbouring markets. All of these variants are confronted by similar business issues. The main differentiating factor is the scale, and the energy and creativity of their resources to cope with the challenges with which they are faced.

At Eversheds, some 60-70% of our franchising work is international and over the years our experience of observing and assisting different clients and observing the ways in which they tackle international expansion and their success or failures, enables us to distil some of the key issues and priorities. What follows is not a thorough discussion of the issues (several times a year we run an all-day seminar on "International Franchising" which goes into the issues and structures at length) but rather aims to give some key pointers to those who are considering, or tempted by the prospect of international expansion:

1. Does your business concept have the potential to succeed in overseas markets? Is there a market for the service? Clearly some serious market research may be required, but it is surprising what can be gleaned by a serious fact-finding business trip or holiday away from the beach. Is there a gap in the local market? What is local competition doing? If research reveals opportunities exist, it's time for the next questions, which have implications for commitment.
2. Can your business cope with diverting/or hiring senior experienced management to focus on international expansion? Work out a tentative budget with experienced advisors or those who have done it before (and beware the doom-mongers who on closer examination have been involved with businesses that did not excel in this area - they would say it was difficult, wouldn't they?).
3. Be aware that the first few steps internationally will be the hardest. It is vital to prioritise target countries realistically: both in terms of potential scale of the market, but balanced by ease or difficulty of market entry and support. Here it is worth noting the "language clustering" that takes place with continental European franchisors: German systems will be found in Austria, Switzerland and neighbouring countries, the French in Belgium and Switzerland and the Spanish and South Americans cross the South Atlantic in both directions far more readily than do the Northern Europeans. So the balance to be made by British and English language based business is between the relative difficulty of supporting a start-up country franchisee in Australia or South Africa at such a distance, and the relative ease which comes from common language communication. On the other hand, there are many sound arguments for the first international markets being a short flight away. Trips to support a Dutch or Scandinavian start-up can be done with relatively little disruption to your team's day-to-day work in the UK and they are generally very fluent in English! And be very realistic in your planning about the number of countries your small team can sensibly cope with.
4. Take very great care to select the right country franchisee. Getting it wrong is a far more serious problem than a bad choice of an individual at home. Sorting it out is more difficult, and leaving it alone may mean a blighted market. Remember too that the first few international franchisees will be ambassadors for those who follow - for better or for worse!
5. Use experienced international advisors to develop a sound model international deal and don't be tempted to stray too far from it in an endeavour to get a deal done and recoup your costs: remember the first few will talk to one another and the concessions you will kick yourself for having made, may come back to haunt you. Remember too that each country is a separate legal jurisdiction and it is necessary to check that local laws will not collide with your contract in important areas. Experienced international franchise lawyers can help avoid the traps and should have global connections to ease the way.

6. Invest prudently in international trademark protection at as early a stage as possible. This is a costly exercise, but many rue the day they raised their international PR profile before getting their key trademark filings in place. The cost of dealing with pirates typically far outweighs the upfront protection costs. This is an area where penny-wise really is pound-foolish, and can even completely block entry to an important country market.
7. Related to this: don't be a fool and show crown jewels to all and sundry. It may be flattering to be visited by a potential investor from the other side of the world, but remember the risk of copycats, and, use a well drafted preliminary confidentiality and intellectual property protection agreement to at least seek to deter: and protect your business and your brand from this risk.
8. Tempting though it may be (and a surprising number of international franchise deals are "reactive", in response to being approached from overseas), be very careful before succumbing to an unsolicited approach from overseas. It is highly unlikely to be the best potential candidate for the country, but is of course indicative of your international appeal.
9. Develop a simple, well thought through procedure for handling international enquiries - as you would domestically.
10. Build both business and legal audits into the process of prioritising target countries: ease of doing business is very helpful in the first few to get you started, and although there are usually ways around apparent obstacles, some countries and jurisdictions are considerably more difficult to deal with than others. This may influence the planning, particularly in the early stages of international expansion.
11. Develop a sensible approach to finding potential country partners. Consult with experienced advisers in the field on the various techniques available.

There are a number of excellent books and seminars available to those who are seriously considering international expansion. Profit from the experience of those with real experience, rather than learning the hard way. Mistakes as well as being particularly expensive in this area, can both severely and unnecessarily damage enthusiasm for international expansion, as well as potentially blocking or setting back an entire country market.

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