



Franchise fever

Each year, the franchise sector generates around \$290 million in annual export income for Australia. Domini Stuart explores why more and more Australian franchise systems are expanding into overseas markets.

American trend analyst John Naisbett predicts that, by 2012, franchising will have developed into the predominant form of sales distribution throughout the world. Already, there are around 16,000 franchise systems operating in over 160 countries across more than 100 different business sectors.

With around 850 systems for just 20 million people, Australia is currently the most franchised country in the world per head of population. It's hardly surprising that, as competition increases and our limited domestic markets become saturated, franchisors are starting to expand internationally. According to a survey conducted in 2004 by Griffith University, about one third of Australian franchises have operations offshore, with New Zealand the most popular destination. Other significant markets include Singapore, Malaysia, South Africa, the United Kingdom, the United States and China.

“Franchising as a way of doing business is now widely accepted around the world,” says Austrade’s franchise and service export industry specialist Cheryl Scott. “There are over 50 countries represented by national franchise associations, and many have introduced franchise specific legislation.

“International trends are also favouring the spread of franchising – globalisation is integrating the world economy and homogenising tastes; trade liberalisation is breaking down trade barriers and increasing access to markets; growth in information and communications technology – particularly the internet – and cheaper international travel have made the world smaller and more interconnected. The spread of market capitalism and the growth of the middle classes in countries like China, India and Russia have also fostered the spread of franchising around the world.”

A good way to grow

Franchising is an effective way to grow your business, both at home and overseas. “You can grow quickly using other people’s capital once you have all the systems in place,” says Scott.

However, problems can arise when franchisors find the potential benefits a little too tempting. “Quite a few have gone down the international path for the wrong reasons – and paid the price,” Scott continues. “If you’re heading overseas to boost your ego, to fix domestic cash flow problems, or in response to unsolicited approaches, then please think again. Smart franchisors embark overseas only after they’ve undertaken extensive research and planning. You really need to do quite a bit of navel gazing – and there are steps you need to go through before you make a move.”

Scott suggests you begin by asking the following questions.

- Do you have a strong track record at home?
- Do you have products/services which are ready for the international market?
- Will your system work within the foreign cultural and regulatory environment, or can it be adapted to do so?
- Do you have an identified competitive advantage?
- Do you have resources to support a move offshore without jeopardising domestic operations?
- Do you have management commitment?

You also need to consider the strength of your brand. “Franchising is all about brand,” she adds. “If yours isn’t well known, potential franchisees will wonder what they’re being asked to pay for. You don’t have to have market saturation, but the closer you are, the easier it will be to sell your franchise, and the more you can ask for it. You can see the way it works in Australia – franchises that are just starting out are a lot cheaper to buy than those that are well established. Look at McDonalds - you could pay \$2 million or more for one of their outlets.”

Protecting your intellectual property

Richard Evans, CEO of the Franchise Council of Australia, believes that you should start protecting your intellectual property the moment well ahead of any move overseas. “It would be heartbreaking to display your franchise at an Expo one year, then return the following year to find someone else doing the same thing under the same name,” he says. “It sounds unlikely, but it could easily happen. You really need to get expert advice.”

Scott agrees that you need to do everything possible to protect your brand. “You should register your trademarks, web domain and anything else you can, though there are still no guarantees,” she says. “One thing you could consider is holding back on one aspect of your intellectual property – like Colonel Sanders’ secret herbs and spices, and the mystery ingredient in Coca Cola.”

A specialised environment

If the country you're dealing with doesn't have franchise-specific laws, there will inevitably be relevant laws of contract and fair trading. You will also need to comply with laws relating to labour and taxation, and standards pertaining to your particular industry.

In Australia, franchising is highly regulated. "If you've been successful in Australia, you're already familiar with a wide range of franchising requirements," says Scott. "But lawyers still have an important role to play because you need to be sure that everything's covered off. Your best bet is to work with someone within your target market – someone who is already linked into local knowledge. Many lawyers in Australia have partners overseas, or people they work closely with. At Austrade we won't recommend one over another, but we can provide a qualified list."

Where should you go?

Traditionally, franchisors wishing to expand overseas have looked to countries with a similar culture and economy. This is why the majority of overseas Australian franchises are in New Zealand despite a limited market of less than 4 million people. The United Kingdom is another popular target – it remains relatively easy to enter, and can act as a stepping stone into the rest of Europe. The common language and potential for accessing large markets with a high disposable income also makes the United States very appealing, despite complex legislation which varies from state to state.

However, franchisors must look to wherever opportunities exist and, increasingly, this means Asia, South America, Africa, India, Eastern Europe and Central America.

"The sheer size of the market in China makes it tantalising," says Evans. "But the fact that it is so huge creates problems of its own. If you're even considering China, I'd recommend doing a fair amount of due diligence before you even venture into an Expo."

Wherever you plan to expand, it's vital to find the right partners.

"There will always be people who will wave dollars under your nose, but you don't have to say 'yes'," says Scott. "It can be hard to resist the temptation, but an offer from the Philippines or Kuwait doesn't automatically make that a good market for you. You need to prioritise markets, learn how business is done there, speak to local contacts and spend some time getting to know the culture. Even if you end up rejecting a market, it's not a bad thing - the success rate of those who have done their research is much higher than for those who didn't."

Choosing your model

The Griffith University survey shows that master franchising is the favoured method for franchising overseas, chosen by 64 per cent of respondents.

“With this method, a license is granted by the franchisor to a local party to conduct business under the franchisor’s brand, and using the franchisor’s system,” says Scott.. “In effect, the master franchisee takes on the role of the franchisor in the overseas territory, with responsibility for growing the network. The franchisor usually receives an upfront fee for the master licence, plus a percentage of the turnover of sub-franchisees.

“How much you can charge depends on the nature of your business and the strength of your brand. Anything that needs a shop front, for instance, is going to be more costly than something like a mobile cleaning business, and strong brands will always be able to command higher prices.”

Joint ventures were chosen by 31 per cent of respondents. “A joint venture is a good option if you want more control over your international operations and have capital to contribute,” says Scott. “This can work in your favour – throwing in your capital can be seen as a demonstration of your commitment.” The overseas partner is also likely to be more committed because they have an ownership stake, and risk is shared by both parties. In some cases, foreign investment laws require local equity, which makes a joint venture structure essential.

Less common arrangements include 100 per cent company ownership overseas (13 per cent), area development arrangements (11 per cent) and the use of wholly-owned subsidiaries (11 percent). The nature of your business, the amount of capital available and your intentions for your overseas expansion will all have a role in your decision – and, again, you will need expert advice.

The help you need

An inexpensive and comprehensive place to start your journey overseas is the publication *Expanding Internationally: A Guide for Australian Franchise Systems*. Produced collaboratively by Austrade, the Franchise Council of Australia (FCA) and national law firm Deacons, it is available exclusively from the FCA – you can call 1300 669 030 or email info@franchise.org.au for details.

“At the FCA we have an ongoing commitment to international development, and our publications support this,” says Evans. “*Expanding Internationally: A Guide for Australian Franchise Systems* provides practical help for any Australian franchisor looking to expand into overseas markets, particularly the steps involved in developing a proactive international expansion strategy.”

Stephen Giles is a partner with the law firm Deacons and co-author of the publication *Expanding Internationally: A Guide for Australian Franchise Systems*. A specialist in franchising, trade practices and commercial law, he recommends the following six-step development plan.

- Assess your export readiness. "The kinds of things you need to take into account are your local success, your commitment to overseas expansion and

whether you have the experience and credibility to tackle international markets," he says.

- Research your desired expansion markets.
- Establish the necessary infrastructure. "This includes protecting your intellectual property, getting advice on the various laws which will apply to your business, establishing your business model and setting down the qualities you need to look for in a partner."
- Begin the execution phase including planning, testing and establishing a pricing structure.
- Establish local partner relationships. "Once you have selected your local partner, you may need to revise your plans and expectations to suit their particular characteristics."
- Work cooperatively to ensure local market success. "Franchising overseas isn't a question of finding a partner and then leaving them to it. You need to be sure your franchisee is doing the right thing by your brand, and your franchisee has the right to expect ongoing support. Communication is vital."

Gloria Jean's

In 1995, Nabi Saleh, a businessman internationally regarded for his coffee knowledge and expertise, and Peter Irvine, former Managing Director of advertising agency DDB Needham, decided to bring US franchise Gloria Jean's Coffees to Australia.

The brand is now one of the fastest-growing and most successful franchise operations in the world. There are 267 stores in Australia each turning over an annual average of \$630,000, and Gloria Jean's has a master franchisor in 15 other countries.

"We've been amazed by the huge level of interest," says Managing Director Peter Irvine. "We're being inundated with inquiries from all over the world – we haven't had to search for countries at all."

In February this year, Saleh and Irvine bought the brand worldwide, including the USA. "It meant we could stop sending them money, of course" says Irvine. "But we were also concerned that the venture capitalists who owned Gloria Jean's in the US weren't really interested in the brand.

"Protecting the brand is one of the major problems faced by any international franchisor," he continues. "Training is crucial for everyone, including the designers and shop fitters as well as franchisees and their staff. It's vital that your standards are maintained in every country, and every store."

Jim's Mowing

One of the most remarkable business stories in recent years has been the rise of the Jim's organisation from a one-man business to the largest lawn mowing franchise in the world. Founder and Managing Director Jim Penman started Jim's Mowing in Melbourne in 1982 and launched the Jim's franchise system in 1989. He believed that

training and support with clearly-defined standards of customer service would allow him to attract and keep both clients and the best franchisees. He was right. There are now more than 2300 Jim's Franchisees worldwide, including car cleaning, general cleaning, dog washing, handyman, fencing and tree surgery as well as lawn mowing, and the company has an annual turnover of around \$120 million.

“Growth hasn’t been a smooth process,” says Penman. “In retrospect, the way we used to start divisions was a costly fiasco. These days, we try to do a lot less ourselves, relying instead on different forms of joint venture partners, including the totally new role of Divisional Franchisor. We’ve separated the role of Franchisor from that of admin centre operator, narrowed the first geographically and expanded the second where we can. We are relentlessly and obsessively change-prone – yet our core values have not changed one iota since the days when I was pushing a lawn mower round the eastern suburbs of Melbourne.”

Dymocks

Dymocks Booksellers was founded by William Dymock in 1879. Just over 100 years later, his great grand nephew John Forsyth took over the business and, by 1986, he has recognised the potential for franchising. There are now 71 stores around Australia, plus six in Hong Kong and five in New Zealand.

“We’re looking at opening more stores in all three countries, as well as exploring other international opportunities, but we have a watching brief. We won’t be rushing into anything” says CEO Don Grover.

Rather than using the master franchise model, Dymocks opened offices in both Hong Kong and New Zealand. “We trade on exactly the same platform overseas as we do in Australia,” says Grover. “We have proof of concept and a well-articulated franchise agreement – we make sure that nothing can be misconstrued. New franchisees come to Australia for orientation and training, and have a chance to talk to people running a successful business here. Nothing is left to chance.”

In the end, the success of any store depends on the qualities of the person running it. “We look for people who have a passion for service and communication, and who can handle the complexity of running a business.”

Michel’s Patisserie

In 1988, Noel Carroll was a food technologist and Noel Roberts was making patisserie products. They decided to expand the patisserie concept, borrowing to the hilt to invest in a small bakery and a handful of Northern Beaches stores.

“We also did something unheard of – we took production of the cakes and pastries off site into an industrial area,” says Roberts. “This allowed people in the stores to focus on the retail operation, and also gave us centralised quality control.”

Roberts continued to do the baking while Carroll took care of deliveries until, by 1990, they had 10 stores and were ready to franchise. Today Michel's Patisserie has more than 300 franchise outlets and is averaging a new store opening every week. They also have two stores in New Zealand and four in Shanghai.

"In both cases, we're working with people we know, and who understand the fundamentals of our business," says Carroll. "The people in New Zealand were franchisees and store owners in Sydney. The people in Shanghai are locals who lived in Sydney and were looking for a business opportunity to take back with them. Wherever we go in the future, we would be reluctant to do business with someone we don't know well."

Howards Storage World®

Howards Storage World began life in the early eighties as a single "Stack and Store" outlet in Sydney. In 1997, owners Les and Edda Howard formed a partnership with Dirk Spence when they recognised the potential for franchising the concept. With 40 stores operating around Australia and an annual turnover of over \$50 million, the company is now looking overseas.

"Our master franchise model has been tried and tested in Australia, with master franchisees in operation in Western Australia and South Australia," says Spence. "We decided that the concept was ready for export in 2004 and, in early 2005, our first International Master Franchise opened a store in Singapore."

Howards Storage World is a retail chain with over 3,500 products on range. As a result, establishing effective overseas supply chains is a major challenge. "We addressed this by searching out local suppliers, direct supply from suppliers from the country of manufacture and tailoring the total product mix to the local market," Spence continues. "Our long term objective is to make Howards an international brand and, as part of the international expansion process, the franchising team has travelled to international franchising fairs selling the concept. We have attracted major interest from Spain and Saudi Arabia, and we are in negotiation with several other countries."