Key to franchising overseas

Operating an international franchise is highly challenging. CHARLOTTE YEN and KEOY SOO EARN look at what is involved

HAVE you been thinking about expanding your business overseas? Or you may know of business owners who had opportunities presented to them by interested potential franchisees, and had successfully exported their business format overseas via a franchise agreement.

Some believe that franchising provides fast overseas market penetration, boosts revenue and profit performance via the collection of royalties and franchise fee payments, and is a strategic response to the changing market conditions.

Franchising is often seen as a quick way to improve the financial performance of a company.

To start with, there is usually a collection of initial upfront fees for the granting of rights to operate solely in a designated area, region or country. This initial franchise fee adds to the income of the franchisor.

Additionally, the franchisor is entitled to royalties on a regular basis and/or other franchise related fees such as advertising contribution, management fees, and training fees bundled into the agreement.

These fees provide regular income sources for the franchisor and improve its financial performance over time if the franchise is properly managed. With the improved performance, the franchisor is able to attract new investors and future franchisees to invest in its operations or undertake its franchises.

Some companies have deployed franchising as a strategic tool before their Initial Public Offering (IPO) to create greater investor interest and to provide a global footprint for their business.

Although there can be a variety of reasons why a company chooses to franchise overseas, the most important thing is to understand and evaluate your reasons to ensure that they are valid and appropriate.

Often, if a franchisor decides to franchise internationally for the wrong reasons, the chances of success diminish and can create a far more negative impact on the business, such as reducing the goodwill generated and impoverishing its overall financial performance.

At times, poor management control and wrong selection of performance measures may even result in inappropriate behaviour by the franchisor or franchisee, causing the business network to collapse.

For example, a franchisor may want to operate an international franchise as a speedy fix to generate funds or to pay off existing creditors.

Although franchising internationally may temporarily resolve the liquidity problems faced by the franchisor, the company will be confronted with larger concerns, such as insufficient resources to support the franchise network, inability to address operational problems raised by the franchisees and unawareness of the potential intellectual property problems.

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Successful: *7-Eleven is among the international franchisors that continue to be creative and competitive as they expand overseas into new territories*

Franchising internationally in such a situation is clearly neither ideal nor advisable remedy. It is common for many businesses to think that the job is done when the franchise agreement is signed. In fact, that is when the real work begins.

Operating an international franchise is highly challenging. Your overseas franchise operation is like your overseas branch office, and you, the franchisor, are the head office.

Both parties must work very closely together, communicate often and openly in order for the business relationship to work and the overseas franchise operation to grow and flourish. Given that huge resources are required, a company who is currently contemplating running an international franchise must invest time to think through its decisions carefully.

Time is a fundamental part of franchising internationally. The process to expand overseas must be carefully planned and staged in consideration of various factors. This includes analysing the current market trends, competitors' strategies, a franchisor's own resource availability and existing capabilities.

This process cannot be rushed as the costs of corrective measures for poor planning typically outweigh the benefits received.

When you are a franchisor, the ultimate achievement will be when your business is recognised as a world leading international franchise. Franchising overseas does not necessarily make a company a true international franchise nor is geographical coverage a key determinant of whether a franchise is international.

So what is an international franchise?

An international franchise is a proven business concept with a well-supported franchise system. The system is flexible and can be transported across different economic, political, cultural and social factors within various environments. It is usually replicated in form and content across geographic boundaries to different stakeholders.

To the customers, an international franchise has a consistent image, presents largely similar products and services, offers highly quality service, and functions through an effective and efficient operating business system.

To the franchisees, it offers a quick method to enter new markets with a well-proven business concept and system, which has demonstrated success in its country of origin. A competent management team from the franchisor is also readily available to provide guidance and training on key operational processes, for example, customer service training programmes, design development and brand management.

Among the international franchises, we can identify names such as Subway, 7-Eleven, McDonald's, etc. Many of these franchisors have operated their business systems successfully in the host country where they first started.

As these international franchisors expand overseas into new territories, they continue to be creative and competitive. They invest resources and time to develop new working relationships with interested parties.

Gradually, over the years, the international franchises pace their expansion and extend their reach into new territories, securing a more significant global presence. In fact, most of these successful brands have spent years learning to adapt and develop a genuinely global franchise which works in most countries.

The most critical step in franchising starts with you. It starts with careful planning on your part. Franchising your business overseas can be rewarding and even more so when it achieves the status of an international franchise that is exported to every corner of the world.

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