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COMING TO AMERICA: Are You Ready?

by

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COMING TO AMERICA – ARE YOU READY?

As promised in our last article, we'll now turn to the question of when a company should consider itself ready for expansion into North America.

Our previous articles discussed the relative attractiveness of the North American market (the U.S. received a 1.4 rating – the highest level and the same as New Zealand – and Canada was rated at 1.6, the same as Australia, in a recent analysis by Edwards Global Services, Inc.) and dealing with potential legal concerns associated with the U.S. market. Assuming that an Australian or New Zealand franchise system has made the preliminary decision to seriously explore entry into North America, it's appropriate to examine when and if a company is ready for this major step.

COMPETITIVE CONSIDERATIONS

Before anything else, the Australian or New Zealand system considering expansion into North America needs to be reasonably assured that its concept is marketable, both to retail customers and to prospective Franchisees. As our Texas friends like to say, "Will this dog hunt?" Obviously, a concept without appropriate application to the North American market should not be franchised. On the other hand, if the U.S. or Canadian markets are already fully serviced by competitive concepts which have dominant market positions, and if no "niche" can be found for the incoming franchise system, successful entry may be quite difficult.

One good example of this approach has been Aussie Pet Mobile®, which was originally developed in Australia and New Zealand and then "exported" to North America. Verification of acceptability of the concept, and the absence of any significant similar concepts with a dominant market position, helped to assure success.

For all of these reasons, thorough research of the North American market is probably the first, and perhaps the most vital, step in determining the "portability" of a concept to the U.S. or Canada, including clearly identifying the target markets for retail sales and franchise awards, as well as verifying that your concept has a significant competitive advantage in the North American market. (The second step is likely to be the establishment of a pilot operation or "test unit" in the U.S., a topic we'll discuss further in a future article.)

POSITION AND HISTORY IN AUSTRALIA AND NEW ZEALAND

While it's possible to take a franchise system to the North American market which has not been extensively tested in Australia or New Zealand, it's not something that we'd normally recommend. Significant development of a concept in Australia and New Zealand first has the following benefits, among others:

- The founders have had an opportunity to learn their roles as Franchisors, a different skillset than simply operating a system with company-owned units.

- Operational, marketing, training and other systems have been fully developed.
- Adequate management and financial resources have been established to support expansion abroad.

Additionally, the system planning to expand to North America should be largely free of a history of problems, such as high rates of unit closures or resales, litigation, low profit level operations, etc. While none of these factors make expansion into North America impossible, they may indicate fundamental problems with the system, which should be resolved before expanding further. A successful business history is, therefore, probably a prerequisite to any international expansion, all the more certainly so when we consider the demands of a sophisticated market such as that in North America.

SATURATION IN AUSTRALIA AND NEW ZEALAND

While not universally true, most systems will not seriously contemplate expansion into North America until they have reached a relatively advanced level of development in Australia and New Zealand. Obviously, expansion at home is easier and involves less of an investment than abroad, and domestic expansion should remain the first priority if significant markets remain untapped, particularly if management and financial resources are limited.

However, there does exist one possible exception to this strategy: the “window of opportunity” scenario. If competitive systems (based either in North America, Australia/New Zealand or elsewhere) are about to occupy a vacant niche in the U.S., or if an opportunity has been presented which may evaporate, expansion into North America may be a rational option, in spite of the fact that expansion possibilities still exist at home. That’s simply a business decision that each franchise system will have to make for itself.

BUSINESS MODEL AND SYSTEM

Any system contemplating expansion should have both a relatively simple business model, allowing easy training and a wide range of prospective Franchisees, along with a strong system of training, operational support, marketing systems and other tools essential to success in a highly competitive market. Most Australian and New Zealand franchise systems should already have these elements in place, or they would not have been effective in their existing franchise operations.

Among other things, these “tools” should include consistent system operating standards, as well as management information systems allowing the Franchisor to monitor unit performance, measure each Franchisee’s progress and counsel the Franchisee on what he or she needs to do to more successfully operate their unit. While these systems may be electronic (including intranet training, communication, point-of-sale systems accessible by

the Franchisor) or paper-based, and may or may not include site visits and other methodology, it's vital that they are in place, appropriately documented with operations and marketing manuals, Franchisee and Franchisee employee training tools, Franchisee support systems, etc. and that it's only necessary to adapt these elements to the requirements of North American expansion.

In essence, the Franchisor's systems should be in a position where they need only minor modification for application to the North American business environment and do not need to be "invented" out of whole cloth. American Franchisees will be quick to notice if a Franchisor is "making it up as he goes along."

RESOURCES - MANAGEMENT AND FINANCIAL

The resources necessary to sustain international development come under two main headings: management resources (human beings) and financial. It's been our experience that the most critical of these, surprisingly enough, is management.

In contemplating expansion abroad, two types of management resources are critical. The first of these is a solid base to effectively continue management of the "home" franchise system in Australia and/or New Zealand. Clearly, the existing operation will not "run itself"; few businesses do that!

So, if expansion to North America is to be undertaken, a choice will have to be made. Either top management will (a) delegate the international expansion project to outside professionals (which can be done, but involves risks if a senior management person intimately familiar with the company and the franchise system is not posted to North America), (b) take on the international expansion portfolio as a high personal priority (generally with the assistance of outside professionals – this may entail the founder relocating to North America) or (c) top management delegating the international expansion project to a senior executive, again generally with the assistance of outside professionals and with the senior executive relocating to the U.S., at least on a temporary (but still full time) basis.

In any of these cases, the requirement is that the franchise system have or acquire sufficient management resources to (a) maintain home operations on track and (b) provide adequate on-site supervision of the international expansion project to assure its success. And make no mistake: you will probably only have one opportunity to expand to North America. If that is mishandled through under-allocation of management resources or otherwise, it will be extremely difficult to successfully repeat the process. That is one reason why we suggest that a company's resources not be spread over multiple countries in the initial phase of their international expansion.

Remember also that if a test unit is to be established in North America (as we generally recommend), management of that unit must also be factored

into the plan. While use of a test unit can have many benefits (contribution to profit, opportunities for operational and marketing adjustments, a franchise sales tool, etc.), it does require management attention, and those needs should be factored into any international expansion plan.

Financial resources are also critical. The numbers will vary for each system, based on the type of business, speed of expansion, projected franchise sales (regional and/or operating unit), costs of outside services, etc. Development of a realistic international expansion plan, budget and timeline will serve to give management a pragmatic sense of financial requirements.

CONCLUSION

Just as the rewards for successful expansion into North America can be substantial, the commitment and readiness of an incoming franchise system need to be equally substantial. While outside service providers can assist in many ways, their objective evaluation of a system's readiness for expansion may be their most important contribution. However, it can never be forgotten that that decision as to level of commitment and readiness is ultimately in the hands of the franchise system itself.

Mr. Holmes is the Managing Partner of Holmes & Lofstrom, LLP, a U. S. -based law firm which is a member of the International Franchise Association, and specializes in international franchising transactions, including bringing Australian-based concepts to North America. He has been involved in the legal and business aspects of franchising for nearly 30 years and can be reached at D.Holmes@HolmesLofstrom.com or in the firm's Northern California office at 805-547-0697. Firm references and biographies are available on request.