

INTERNATIONAL FRANCHISING TRENDS

In late February 2006 Stewart Germann attended the IFA Convention at Palm Springs.

Some of the business sessions could well be described as international trends and topics included the following:

- (a) Accelerating franchise development in international markets.
- (b) International protection of trade marks and confidential data.
- (c) Successful multi-unit strategies.
- (d) Marketing strategies for established franchise brands.
- (e) Selling internationally which means setting the price, generating the leads and closing the deal.
- (f) The unique needs of the larger, established franchise.
- (g) Protected territories as an effect development tool – how can you maximise the benefits and minimise the cost?

Franchise Legislation

Many countries have franchise legislation, mainly in relation to disclosure requirements. However, New Zealand, Singapore and the UK have no franchising specific legislation and high standards are being maintained through self-regulation, essentially through the Code of Practice which forms part of the Rules of the Franchise Association of New Zealand.

Going Offshore

Mature franchisors must go offshore at some point in order to expand their system.

Some New Zealand franchisors have already taken the step to expand internationally and a leader amongst these is Fastway Couriers.

Ways of expanding offshore include setting up a company-owned operation; direct franchising; master franchising; creating a joint venture; and using development agents.

Company-Owned Operation

Franchisor establishes its own operation directly owned and operated which means that the franchisor would have to have the manpower and financial resources to establish and sustain such an operation overseas.

Direct Franchising

Franchisor enters into a franchise agreement with each individual franchisee in the target country and franchisor has to provide initial training, back-up and continuing support which is difficult from afar.

Master Franchising

This is by far the most popular and franchisor appoints a master franchisee in the overseas country to either take the whole country or part of a country as its territory. The master franchisee must open a pilot operation, trade it for at least six months and preferably longer and then the master franchisee appoints franchisees under him to expand the system in the foreign country.

Joint Venture

Franchisor enters into a joint venture with a foreign company and a new joint venture company is normally set up. The foreign company is, in effect, the franchisor on the ground and the joint venture company must establish the system in the target territory on a shared basis with the local partner.

Development Agents

Franchisor appoints development agents in an overseas country to open and operate outlets and to subsequently sell them to independent franchisees.

Multi-Unit Strategies

Using this concept, a franchisee operates two or more outlets within the same system. Obviously, a franchisor must be very careful to pick the right franchisee to use this concept but, if chosen carefully, both parties can be very successful.

In New Zealand there are some franchisees who operate four or more McDonald's restaurants. Within the Paper Plus system, one franchisee has three Paper Plus stores and one Take Note store but both brands are within the Paper Plus Group.

At the Convention, Paul Plate of Regis Corporation told Stewart Germann that Regis Corporation in North America operate approximately 2,300 franchise salons under five brands being Supercuts, Cost Cutters, ProCuts, First Choice and Magicuts. Of those 2,300 salons there are only 375 franchise owners, so there is an average of six stores per owner. Paul advised that the benefits of a multi-unit strategy include market penetration; accelerated growth, rewarding productive franchisees; mitigating failure rate; reducing training and assistance; and operating market efficiencies. Care must be taken to choose the right franchisees to take forward any market unit strategy. There has to be an Area Development Agreement and a key legal issue which must be considered is restrictive covenants or restraints of trade.

Some of Stewart Germann's clients in New Zealand have given large territories to franchisees with the right for the franchisor to open up additional outlets within a specific

territory provided the franchisor offers a right of first refusal to the incumbent franchisee to open that new store designated necessary by the franchisor.

Dual Branding

The concept of dual branding involves two franchise brands operating with the one location. These brands are usually operated by the same franchisee but there are many instances where both brands are operated by different franchisees. For example, a Subway operating within a Caltex Starmart Services Station; a Burger King outlet operating within a Shell Service Station. Stewart Germann predicts that dual branding will expand rapidly in New Zealand but care must be taken to protect the integrity of each brand and the standards associated with it.

EXPANDING TO NORTH AMERICA

Successful and mature New Zealand franchisors must look overseas to expand their system. The closest market is Australia and there are many New Zealand franchise systems in Australia. A huge and exciting market is North America which comprises Canada and USA. Both markets are very mature, sophisticated and are pro-franchising.

As you would expect, franchising in USA gives access to a huge market where franchising is readily accepted, mature and very successful in relation to many systems. Canada is also an excellent market but because of the vastness of the country it is mainly active in British Columbia (Vancouver) and Ontario (Toronto).

Stewart Germann Law Office in New Zealand have entered into a strategic alliance with Holmes Lofstrom in the USA, Pratt & Co in the United Kingdom and Baybridge Lawyers in Sydney under the brand **Unifran Alliance** to promote and assist with international franchising throughout these four key countries.

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