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THE WORLD OF FRANCHISING

Australians excel at the franchise model, whether it's franchisees buying up international brands for our own backyard or Australian franchises going global

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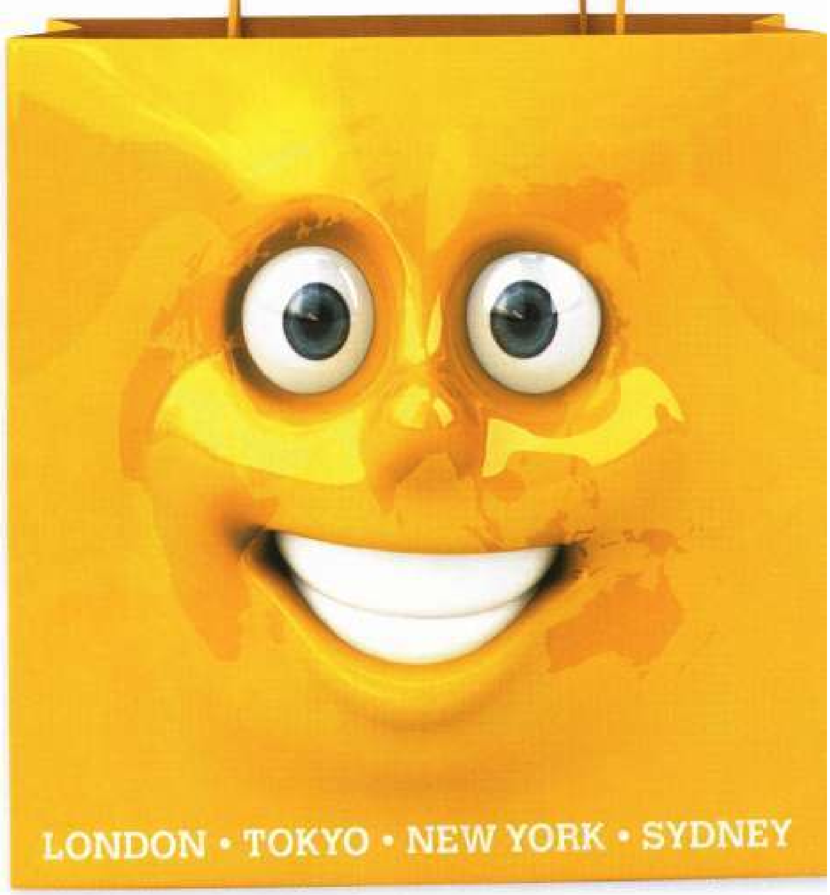

WITH MORE THAN 1,000 franchise outlets, Australia boasts the highest number, per capita, in the world. Franchises contribute about 15 percent to our gross domestic product and are considered stable small businesses, with statistics showing that franchised businesses are twice as likely to succeed than non-franchised businesses.

The majority of franchises in Australia are homegrown, with just nine percent of foreign owned chains operating here: most originate in New Zealand, the United State and Europe. Australian franchisees tend to look for well known brands, a different approach or niche that can be used to satisfy a latent need in Australia, and a commitment to be around for the long term, says Steve Wright, executive director at the Franchise Council of Australia.

"The well-known brands do well due to their brand awareness, as well as systems that offer a different or unique product or service," he says. "They may not all take on, but the ones that do can become quite successful as they can provide a unique offering to the Australian market."

Understandably, franchisees are cautious even about big brands considering Starbucks' recent stumble in the Australian market. Wright believes the company-owned chain did not do enough research on the cultural differences between the Australian and US market. "Although not a franchise, Starbucks is an example of an international success that could not be replicated in Australia due to a fundamental lack of understanding of Australian markets," he says. "They appeared to misunderstand the demand dynamics, especially the strength of competition from brands which were smaller scale in an international sense, but which had nonetheless established strong customer loyalty because of reliable quality product and service."

Choosing a foreign franchise should therefore involve meeting with the master franchiser to see how much they understand the Australian operating environment. "Understanding the business, cultural and community differences can be a critical determinant of success," agrees Wright.

When purchasing a foreign-owned franchise, potential franchisees should be absolutely clear about what's involved. "Just be aware that translation of systems, procedures, products or services can be crucial to the success of the business in Australia, so make sure you understand the details of the agreement and consult a lawyer of consultant with experience in these matters," Wright advises.

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WORLDWIDE CHAIN

There are plenty of reasons why Australian franchises should think about taking their brand global. Australia is a limited market by population and the franchise model allows overseas franchisees to buy into a business that creates jobs in their area but delivers revenue to Australia as well. Brands like Gloria Jean's Coffees and Boost Juice have even been successful in far-flung countries like the United Arab Emirates, while service frachises like hair salon Just Cuts and car washing concept EcoWash have entered large markets like India and the US respectively.

One franchise just starting its global journey is Café 2U, a mobile coffee delivery business. The model is based around a modified Mercedes van delivering coffee to what managing director Andy Simpkin says are "non-traditional locations" like industrial estates and office parks, with options to operate outside business hours such as at weekend sport or special events.

The franchise recently expanded to the UK and is currently looking at the US market. Illustrating the potential of going global, Simpkin points out that while its modelling shows there are about 300 territories in Australia, it estimate there are 1,200 in the UK and another 1,200 in California alone.

SEEKING SIMILARITIES

Originally from the UK, Simpkin says they didn't require too much assistance with that market. His brother completed a proof of concept to see whether the model would work.

"We weren't sure whether the Australian coffee culture would translate directly into the English coffee culture, which is about 15 years behind," he says.

However, the key factor that convinced him it would work in the UK was that it was a milk-based coffee culture. "People say 'coffee? You should go to Italy or France' but in fact that's not the case because in Italy and France and Greece it's black coffee. Short blacks are not the issue. Coffee machines make espressos, it's only when you get to the milk when life gets really difficult: milk goes off, there are health and hygiene issues," Simpkin explains. As a result, the franchise will look to other milk-based coffee cultures like the Netherlands, Denmark, Norway and northern Germany and avoid areas where black coffee prevails such as the Middle East and South America.

ANDY'S ADVICE

- Protect your plans
- Get legal advice
- Go to relevant trade shows and conferences such as those run by the International Franchise Association
- Use networks, including online networks
- Check out your local trade association and organisations like the Franchise Council of Australia and Austrade.

"DO PROOF OF CONCEPT TO SEE IF IT'S POSSIBLE, MAKE SURE IT WILL WORK IN YOUR TARGET COUNTRY"

Another reason Café 2U chose the UK was because the legal and business environment for franchising was quite similar to Australia's. "It's easier to launch somewhere that speaks your language. The rules and regulations are quite similar, the franchising language is similar—although the coffee language is slightly different. Overall there are more similarities than differences," says Simpkin.

But Café 2U didn't just roll into town expecting customers to turn up. There was a degree of what Simpkin calls 'missionary selling,' that is selling things to people that they didn't know they needed. "You walk into an office and you say 'we're Café 2U and we'd like to sell you coffee' and they say 'we've got coffee' and they point to a tin of Nescafe," he says. We're talking about a different product and if you're selling a different product, once they've tasted it, a little light goes on.

BRANCHING OUT

While Simpkin and his team managed to use their knowledge of the UK market to launch their franchise there, they decided to employ a business adviser for the less familiar US. "We've also got a good lawyer—you need good lawyers, unfortunately," he says. Indeed the brand ran into trouble when someone else registered the name Café 2U just a week before they lodged their registration. "Getting control of your brand name is always a challenge," says Simpkin.

To prevent similar situations, Simpkin says they've registered the name in other places where he believes Café 2U may go. While it's expensive, there's a trade-off between prevention and litigation.

The franchiser will now conduct research to ensure the model will win American franchisees. "We're just recruiting now, and the plan is to do proof of concept because our coffee is very different and the coffee culture is very different," says Simpkin. "We believe we should be able to appeal to the American consumer without compromising on our coffee. We may end up doing a pour-over version as well for people who want it."

His advice is to look for the similarities between your current market and your potential market, and then identify the differences. "If you see the difference as being insurmountable, have a serious look at it. Then do proof of concept to see if it's possible, make sure it will work in your target country," he says. "Until then you have nothing to sell anyway, particularly coming from Australia. Go in low cost and build the concept and hopefully it'll gain momentum." DB

