https://www.franchisetimes.com/franchise_insights/before-international-expansion-put-care-into-support-and-planning/article_5cdd77b6-8caf-11eb-ac22-3f11d33444c9.html

Before International Expansion, Put Care Into Support and Planning

Andrae Marrocco
Mar 29, 2021

Andrae Marrocco
Illustration by Jonathan Hankin

Most people are familiar with the well-worn textbook considerations associated with international franchise expansion. Ultimately, successful international franchising requires well-crafted, tailor-made strategies and solutions, a reality even more fitting in 2021.

Aggressive international growth was a strong pre-pandemic trend with numerous brands experiencing record international sales, including many U.S. brands with greater success outside the country than within. During the past year, many brands pivoted and managed to maintain varying levels of international development. Brands must now consider how best to position themselves as the world emerges from the pandemic.

New ways

As international development ramps up—albeit at different rates in different markets—there will be hurdles to negotiate. Particularly when it comes to large scale international develop deals, investors typically expect to kick the tires and undertake a fair amount of due diligence before making an investment decision. With fluctuating waves of restrictions (including quarantining requirements) expected to be the norm across the globe for the near term, brands will need to take a flexible and creative approach.

This includes things such as balancing the now prolific video conferencing practices with the much-anticipated return to in-person interactions. Many brands will no doubt continue using Zoom and other services for initial calls courting prospects. However, when it comes to further progressing the engagement, in-person meetings and visits may be preferable.

A foreseeable challenge is the level of comfortability for both brand representatives and investors in traveling and meeting in person. Other expected challenges will revolve around policies and positions taken with respect to vaccination. In addition to governmental regulation on vaccination, it is likely that airlines, hotels, brands and investors will take their own positions.

Old principles

The fundamentals of international franchise expansion remain relevant. Given the recent pivots, upended markets and never-ending uncertainty, it is more important than ever for franchise brands to have their house in order in positioning for international development. "Franchise brands will need to manage—and perhaps initially resist—the allure of pent-up international demand in the upcoming months," said Steve Beagelman of SMB Franchise Advisors. That is, until such a time as the conventional criteria—well-established systems and processes, adequate infrastructure and personnel to support international franchisees, research and strategy, etc.—are considered carefully including against the backdrop of the ongoing pandemic conditions.

During Beagelman's time at Rita's Italian Ice, the brand reached 350 locations in the U.S., with 100 more in development. The brand turned down several opportunities to expand internationally at that time in favor of further domestic expansion. "There's prudence in pacing, and sometimes the best decisions are those that involve saying, 'no.' Risking the 'house' over one development stretch makes no sense," said Beagelman.

Preparing and positioning

When Beagelman reflected on the brands that have been most successful with their international expansion, one key element of their preparation almost always included bolstering infrastructure. Hiring or setting apart knowledgeable and experienced representatives to think through the international issues and requirements, as well as how best to support international franchisees, was a critical first step. "Even simple things like different time zones can be a challenge. If your support center is closed when international franchisees are open, that clearly doesn't work," he said.

He did acknowledge there are outliers. Beagelman assisted in taking a brand to China somewhat prematurely—it wasn't part of the brand's five or even 10-year plan. However, the returns were so significant that it warranted the expenditure to build out a team to support the expansion. The management team was also sophisticated and versatile, allowing the brand to pivot effectively for the opportunity.

In 2021, brands need to consider and develop projections based on the volatility of the pandemic conditions, and how they will impact prospective partners' ability to operate over the short term as well as their subfranchisees (as applicable) in that jurisdiction. This may include charting the current and historical pandemic restrictions and requirements for the relevant region, together with charting projections for various scenarios going forward.

Favored industries

Certain brands and industries have fared well in the pandemic. Home services brands are one example, along with quick-service and fast-casual restaurants that pivoted to takeout, curbside pickup and delivery options. Brands that have experienced success in the pandemic are well-positioned to take advantage of the pent-up demand in international franchising.

Beagelman said 2021 may be the year for these brands to invest in their "international toolkit, human capital, research" positioning for international expansion. However, it is still incumbent on those brands to do the research and select their jurisdiction based on the factors that best suit the brand on a case by case basis. Beagelman recommended that brands "consult with their boards, internal advisers and external advisers so that they make the most informed decision on international expansion."

Approaching private equity to assist with international expansion is another option for franchises that continued operating strong in the past year. Beagelman said it may be incumbent on brands with healthy EBITDA or cash flow at the unit level, or that are returning to a healthy EBITDA, to explore arrangements with private equity to secure growth capital and enhanced expertise and infrastructure.

"2021 may be a year of solid international growth for brands, but they have to prepare for it and be ready to support it," said Beagelman.

Andrae Marrocco is a partner and co-chair of the Franchise & Distribution Group in the Toronto office of McMillan LLP. His column World View covers international franchising in each issue. Reach him at andrae.marrocco@mcmillan.ca

---

Andrae Marrocco