

ILAN ALON



SERVICE FRANCHISING A GLOBAL PERSPECTIVE



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by

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Dedication

To Sophia, Joseph and Polya

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Foreword

Service Franchising: A Global Perspective

Twenty years ago I was offered the position of assistant director of development for the International Franchise Association (IFA). At the time, I knew little about trade associations and even less about franchising, but the job seemed intriguing and the IFA was willing to take a chance on me. Little did I know this would propel me down a path dedicated to one of the most successful models for retail development ever created--franchising.

My first job at the IFA was to meet with franchised companies to learn about the challenges they faced in building their businesses and to sell them IFA memberships. Later, I created the international division for the IFA with the goal of helping members franchise outside the United States. At that time there had been little serious research, or useful writing on international franchising. I learned by observing, listening and working with franchisors as they pursued international franchising. When I was offered a position to help build the international division of a franchised company, I jumped at the chance. For the next fifteen years I learned firsthand the extraordinary power of the business format franchise model.

What I learned was that it is not easy to build a business. It is even more difficult to build a business in the retail sector. The expenses of marketing, real estate, labor costs and rapidly changing consumer habits are just a few of the factors that add to the risk and complexity of this business sector. Trying to replicate the success of a retail concept in a new country creates an even greater challenge. Now the business needs to learn how to operate in the new country with different legal and tax codes, consumer habits, labor laws, retail environment—no easy task as demonstrated by the numerous failed attempts.

It was exciting to experience how the use of a business format franchise system helped reduce the risk for all parties and increase the chances that the venture would be successful. The risks are reduced because the franchisor is transferring specific knowledge about management of the business to the franchisee (or master franchisee). But it is not just a one way relationship where the franchisor has all the answers. Because the franchisee is providing virtually all the capital to build the business, a unique relationship is created where the franchisor must listen and respond to the concerns and issues of the franchisee differently than if that franchisee were simply an employee of the organization. The right franchisee brings critically important local knowledge and experience to the relationship that accelerates the learning curve for the US franchisor. It is the franchisee that is in direct, daily contact with the customer and listening to what is happening on the line level.

This vital information sharpens the franchisor's awareness of changes in consumer needs, and enables a timely response to keep the product or service relevant.

It is important to remember that franchising is not an industry. Franchising is a business strategy for delivering a product or service to a customer. The IFA has identified over 75 different industries that use the methodology of franchising. According to the 2004 study sponsored by the International Franchise Association Educational Foundation and conducted by the National Economic Consulting Practice of PricewaterhouseCoopers, in the United States alone, more than 760,000 franchised outlets employ more than 18 million people providing nearly 14% of US private-sector employment. This generates \$1.53 trillion in economic activity or nearly 10% of the private-sector economic output. Outside the United States franchising appears to be growing at an even faster pace.

At a time when use of this powerful business model for growth is expanding around the world, it is curious that there has been relatively little academic interest in the subject. Without empirical research it is difficult to evaluate the impact that franchising is having in a country. Again, franchising is not an industry, so the overall effect of the franchising model on an economy is hard to measure. Because franchising has been dominated by the fast food industry, many policymakers focus on the product rather than the model that franchising is and how it facilitates the transfer of best of business development strategies and processes. A successful franchise system teaches standardization, training, marketing, operational support—key areas that improve the competitiveness and development of a robust retail sector. It is not often understood that franchising creates important opportunities for local investment and employment. If policymakers better understood the positive impact of franchising on local and national economies and societies, particularly in emerging markets, then we might see a more supportive regulatory environment, one that works to nurture and protect the development of franchising as a business model. Ilan Alon's work examines the total impact of international franchising, and specifically the implications for emerging markets. He provides is an important addition to this sparsely covered topic.

From the US franchisor's perspective, many attractive opportunities encourage the franchisor to venture into markets beyond the United States. However, I have learned from direct experience the hardships and challenges that must be overcome in order to make a franchised business successful outside of the US. Most franchisors start with the strategy of finding the right local partner, or perhaps more accurately, the local partner finding them. They then embark upon the process of replicating the key elements of their franchise system and transferring them to the new franchisee. They must adapt the business model to local consumer habits and business customs. While at the same time they must make sure that there is enough capital in the

enterprise to keep the cash flow of the business positive until franchise sales and the ongoing royalty becomes self-sustaining. These are complex and critical tasks that the franchisor must manage no matter which country he begins operations.

But there are key factors that can profoundly influence whether it even makes sense to begin in a certain country. The more knowledge that the franchisor has of the key factors, the more likely will be that company's success. With this book, Dr. Alon helps the franchisor to ask the right questions to determine whether a company is prepared to tackle risks and realize the rewards associated with doing business internationally.

Franchising is a business model that is becoming even more important in the 21st century. More and more countries' economies are dominated by the service and information sector. This is a sector ideally suited for the use of franchising. Today the influence of global brands reaches to furthest corners of our globe. Around the world technology continues to transform the way in which we live our lives and conduct our businesses. I have been amazed at the positive impact that use of technology has had in facilitating and dramatically reducing the cost of managing the complete transfer of a business system and the ongoing support required by the structure of franchising. Because of the scarcity of empirical research on international franchising, the knowledge gap is filled with anecdotal information that may or may not be accurate. Dr. Alon's work makes a significant contribution to the understanding of franchising as a powerful business model in international markets, and it is my hope that more academicians will recognize franchising as a topic worthy of serious research both as a strategy for expansion and as a method of development for emerging markets.

Peter D. Holt
San Diego, CA, USA
2005