**Small Business (A Special Report); Foreign Flavors: When going abroad, you should think of franchising as a cookie-cutter business; Unless, of course, you want to succeed**

[*Richard Gibson*](javascript:void(0);). [**Wall Street Journal**](http://proquest.umi.com/pqdweb?RQT=318&pmid=7510&TS=1307228960&clientId=29440&VInst=PROD&VName=PQD&VType=PQD). (Eastern edition). New York, N.Y.: [Sep 25, 2006](http://proquest.umi.com/pqdweb?RQT=572&VType=PQD&VName=PQD&VInst=PROD&pmid=7510&pcid=33557291&SrchMode=3). pg. R.8

**Abstract (Summary)**

"You pick some good ones, you pick some that aren't so good," Patricia Demarais, director of international operations for the Subway sandwich chain, says of that company's experience finding partners in more than 80 countries. Trusting a surrogate becomes vital because "we're very much into delegating decisions," she says. But, Ms. Demarais adds, "while we want them to be really aggressive and believe in the brand, we don't want them to reinvent it."

Some franchisers disagree. Even though his company has only 49 franchised outlets in the U.S., Daniel Wencel, president of Caboodle Cartridge, a Santa Clara, Calif., printer-cartridge replacement franchiser, says he's talking with potential international partners in China and Northern Europe. "We're a young company, but there's no reason to wait," Mr. Wencel says. "By staking your presence there, you kind of prevent others from doing what you're doing. All arguments are for doing it sooner than later."

That way its franchisees "never get access to the formulation, so we've got an inherent protection in the way we operate," says Robert Stidham, vice president of franchise development at Chem-Dry. Also, because of those franchisees' frequent purchases, "we have an opportunity to understand what's really going on at retail," he says.

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ALL POLITICS, it's said, are local. The same often holds true for franchising, despite its reputation as a cookie-cutter, by-the-book way of doing business.

Being able to adapt to local customs, laws and tastes is particularly crucial when a franchise goes abroad.

Take Domino's Pizza Inc., presumably about as standardized an operation as there is. Put a fresh-tossed pie in an oven, bake for 5 1/2 minutes, box and deliver. But when the Ann Arbor, Mich., company took that concept abroad, it experienced an array of situations that ran counter to its operations manual.

In Japan, Domino's had to modify its delivery procedures because addresses there often aren't sequential but instead are determined by a building's age. On Aruba, it soon found that using motorcycles to deliver pizzas was too dangerous because of the island's strong winds. (Small trucks solved the problem.) In the Philippines, locations of stores at times were chosen using feng shui, a Chinese art that positions buildings according to spiritual flows. And because many Icelanders stay up all hours, Domino's stores there must be open much longer than elsewhere.

Occasionally, local barriers proved insurmountable. When the company went into Italy, many Italians found its pizza "too American -- the sauce being too bold, the toppings too heavy," a company spokesman recalls. Eventually the world's largest pizza-delivery company packed up and pulled out of that country.

As veteran globe-trotters can attest, having a savvy guide can make all the difference when going abroad. For franchisers that means finding the right business partner, someone familiar with the terrain, who can navigate through bureaucratic brambles if necessary, and who knows what will sell and what won't. The franchiser also must have confidence in the distant partner's judgment -- be it in selecting franchisees, negotiating with suppliers or making on-the-spot decisions for the welfare of their venture.

"From a business perspective, the most important consideration is finding a partner who understands the culture, the customs and the consumer," says Matthew Shay, president of the International Franchise Association, the industry's Washington-based trade group.

But sometimes even sophisticated companies stumble in that selection process. Seattle-based Starbucks Corp. encountered difficulties with international partners twice. The first time was in Israel in 2003 when, citing "some disagreements in philosophy" with its partner there, according to a company spokesman, Starbucks abandoned the Israeli market. A year later the specialty coffee retailing giant bought back its shops in Germany from department-store operator KarstadtQuelle AG after the venture missed financial targets.

"You pick some good ones, you pick some that aren't so good," Patricia Demarais, director of international operations for the Subway sandwich chain, says of that company's experience finding partners in more than 80 countries. Trusting a surrogate becomes vital because "we're very much into delegating decisions," she says. But, Ms. Demarais adds, "while we want them to be really aggressive and believe in the brand, we don't want them to reinvent it."

To establish its fast-food chain in India, the world's second-most populous nation, Subway, a brand owned by Doctor's Associates Inc., of Milford, Conn., chose two Indian brothers who had been educated in the U.S., Gurpreet and Manpreet Gulri. They're responsible for finding franchisees and helping them open stores while overseeing the brand's operations across India. So far, the Gulris have signed up 35 franchisees, who operate a total of 60 restaurants in major cities; the brothers run four stores in Delhi.

While Manpreet Gulri was experienced in Indian commerce -- his family ran a cables and wires business -- he still found India's bureaucracy an impediment. It took two years of negotiating to win the necessary approvals to open India's first Subway outlet.

Obtaining supplies proved a challenge as well -- especially finding flour suitable for making sandwich bread. "The quality of the flour in India is not at par with the quality of flour in the West," Manpreet Gulri says. "That has posed a lot of issues."

The Gulris also encountered a problem that Subway franchisees elsewhere aren't likely to face: "Indians are not a bread-eating community," Manpreet Gulri says. So he and his brother must continually educate prospective customers on the merits of their products. And to win over the vegetarian multitudes, the Gulris rolled out five meatless sandwiches.

While the Gulris are development agents -- a model that gives Subway considerable control over its overseas investments -- many U.S. franchisers prefer to go abroad with what's known as a master franchise. They find a well-heeled partner who will sub-franchise an entire country, and act much as the parent franchiser does in the U.S.

Going international is often an appealing notion, but experts say that timing, experience and realistic opportunity should dictate when franchisers make the commitment. "Deals are improvidently made because people [the franchisers] are enticed by the lucrative upfront fees that one can get by selling rights" overseas, says franchising attorney Rochelle Spandorf.

Citing clients itching to franchise internationally without having even a dozen franchised units in the U.S., Ms. Spandorf, a partner with Sonnenschein Nath & Rosenthal in Los Angeles, advises, "Don't rush into it. There has to be an enormous amount of research and knowledge about the local market, and the local partner."

But some franchisers disagree. Even though his company has only 49 franchised outlets in the U.S., Daniel Wencel, president of Caboodle Cartridge, a Santa Clara, Calif., printer-cartridge replacement franchiser, says he's talking with potential international partners in China and Northern Europe. "We're a young company, but there's no reason to wait," Mr. Wencel says. "By staking your presence there, you kind of prevent others from doing what you're doing. All arguments are for doing it sooner than later."

Still, there are some markets that feature barriers both legal and cultural that can make it difficult for a franchise to establish a foothold. China, with 1.3 billion potential consumers, ranks among the world's most enticing of markets, yet only a relatively few foreign franchisers have gained entry. Protective of homegrown businesses, Beijing has erected a legal barrier requiring that a non-Chinese franchiser directly own two or more stores in the country for at least a year before allowing franchisees to take over. "That makes it very difficult to enter except with a joint-venture partner," Ms. Spandorf says.

Some overseas franchisers also question how much protection their trademarks and other intellectual property would have in China. Erik Mallon, international vice president of Gym Consulting Inc., Sherman Oaks, Calif., which franchises My Gym children's fitness centers, worries that those and other laws favor Chinese nationals. "If they didn't want to stick to the agreement, it may not be upheld in the Chinese courts," he says.

By contrast, Vietnam, which is emerging as a target on numerous franchisers' expansion lists, is seen as being more hospitable. It requires only that the franchiser have at least a year's experience operating a franchise, but that experience can be elsewhere.

Perhaps ironically, the U.S. is among the toughest markets for foreign franchisers to crack. "The regulatory burden is probably the highest in the world," the franchise association's Mr. Shay says. Meeting disclosure requirements, which apply to franchisers both foreign and domestic, along with many state registrations, can be expensive, time-consuming, intimidating and daunting.

Language remains a significant factor in deciding where to expand abroad. "Most U.S. franchisers go first to Canada," says Mr. Shay -- not only because training manuals and other materials needn't be translated, but also because the regulatory format and business customs there are so similar to those in the U.S.

Formation of the European Union has encouraged franchising on the Continent, what with its single currency, which simplifies cross- border financial transactions. The other side of that coin is that by lacking a diversity of currencies, the franchise operator with a broad presence in Europe is more exposed to risk should the value of the euro fall.

Also, real estate can be extraordinarily costly in parts of Europe. In France, would-be franchisees often must pay "key money" to the previous tenant to obtain a site. That payment can be considerable, which is one reason why service franchises that don't require a shop or other retail location -- office cleaning and elderly care, for example -- are popular concepts there.

Because keeping tabs on one's overseas franchising operations can be dicey, some companies put safety valves in their ventures. Chem-Dry, a carpet-cleaning franchising unit of Home Depot Inc., makes all of the equipment and solutions that its world-wide franchises require at its Logan, Utah, headquarters.

That way its franchisees "never get access to the formulation, so we've got an inherent protection in the way we operate," says Robert Stidham, vice president of franchise development at Chem-Dry. Also, because of those franchisees' frequent purchases, "we have an opportunity to understand what's really going on at retail," he says.

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Mr. Gibson is a special writer for Dow Jones Newswires in Des Moines, Iowa. He can be reached at dick.gibson@dowjones.com.



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