

UNIVERSITY of NEW HAMPSHIRE

Outreach Scholars Academy 2009

1. PROJECT TITLE

International Franchise Expansion Index

2. PROJECT DESCRIPTION

This project will develop a new and unique quantitative model that can be used to generate an index ranking all of the world's countries in terms of potential opportunities and risks for international franchise expansion. International expansion is a central research theme for the Rosenberg International Center of Franchising (of which I am the associate director), and this project is of great interest to, and requires the participation of, both academic and business practitioners.

3. BACKGROUND INFORMATION/STATEMENT OF THE ISSUES/PROBLEM

In the review of the academic literature, and in discussions with franchise executives, it was apparent that most of the articles on international expansion projects were conducted on an ad hoc basis. Many franchise firms often enter foreign markets based mainly on intuition or personal experience. The following four methods of international franchise expansion are some of the most common:

1. Follow the leader: Everyone else is there so we should be there too (i.e. McDonald's);
2. Reactionary: Someone invited us to go there (i.e. a foreign developer);
3. Emotional: We like to be there (i.e. family ties or personal interest); and
4. Business as usual: We're already there, so let's expand (i.e. comfort zone).

This can lead to a high rate of failure in foreign markets.

4. PROJECT DETAILS

Goals and Objectives

To develop a model that would identify and rank the optimal international franchise expansion markets.

*A Community Engaged University
The Carnegie Foundation for the Advancement of Teaching*

Target Population/Audience

This project is primarily of interest to the International Franchise Association (IFA) and to its member firms, many of which are highly interested in expanding their businesses overseas. The IFA is the largest international trade association representing franchisors, franchisees, and suppliers. Franchising creates employment (direct and indirect) for 21 million people nationwide, and contributes over \$2,300 billion (11.4 percent) of US GDP and over \$660 billion in payroll.

This project is also of interest to the academic community as it is a novel way to investigate international franchise expansion and sheds a new light on an important research issue.

Methods

Instead of the ad hoc methods that are currently prevalent, this project uses a strategic approach that takes into account the internationalization objectives of franchise firms and provides a guide to achieving these objectives in an optimal way. This project first dissects the current and past academic research in the fields of internationalization and franchising. The most important determinants of successful international expansion are identified. These include Market Potential (size, growth, and purchasing power), Market Risks (economic, political, legal, and regulatory), and Distance (cultural and geographic). Formal and informal surveys and discussions with franchise executives confirm the success drivers and help determine their relative importance to international expansion success. The data collected from academic researchers and from business executives are synthesized into a quantitative model that can generate rankings of all of the world's countries as potential international franchise expansion targets. Using proven methodologies, quantitative proxies for market potential, market risks, and distance are developed and used in the model to assign a score to each of the countries in terms of risk and potential. An index ranking all countries from "Most Desirable" (high potential/low risk) to "Least Desirable" (low potential/high risk) country to expand to is generated.

Evidence of External Collaboration and Partnership

The Whittemore School of Business and Economics' Rosenberg International Center of Franchising has been collaborating with the International Franchise Association for a number of years. Examples of collaboration include the development of franchise case studies, the quarterly publication of the Rosenberg Center Franchise 50 Index and Report, the development of the world's first franchise-specific online research Bibliography and Database (in cooperation with EBSCO), and the publication of research reports in the IFA's trade journal, *Franchising World*. The RICF director, Udo Schlenrich, and I also periodically present our research findings to the IFA. For the current project, an online survey was completed by 104 US-based franchise firms that are members of the International Franchise Association. In addition, a number of face-to-face and telephone conversations

*A Community Engaged University
The Carnegie Foundation for the Advancement of Teaching*

were conducted with members of the IFA's Global Marketing Committee to ascertain the needs, expectations, and experiences of the franchise firms. In addition, feedback from IFA members and from the members of the RICF Advisory Board (all of which are senior executives of franchise businesses) was requested throughout this project. Also, this project was presented and discussed with a number of academic researchers at several international academic conferences.

Franchise firms do not generally have the financial and human resources to enter a large number of international markets simultaneously. Franchise executives can use the model developed in this project to strategically select the optimal international expansion markets in a time-efficient and cost-effective way. The highest ranked countries identified by this model are the countries that are of most interest to profit maximizing and shareholder value maximizing firms, as these countries have the best risk/opportunity profiles. Instead of analyzing up to 200 potential countries to expand to, franchise firms can focus on only the top ten to twenty countries identified by this model, therefore reducing significantly the time and cost to develop and implement their international franchise expansion strategies.

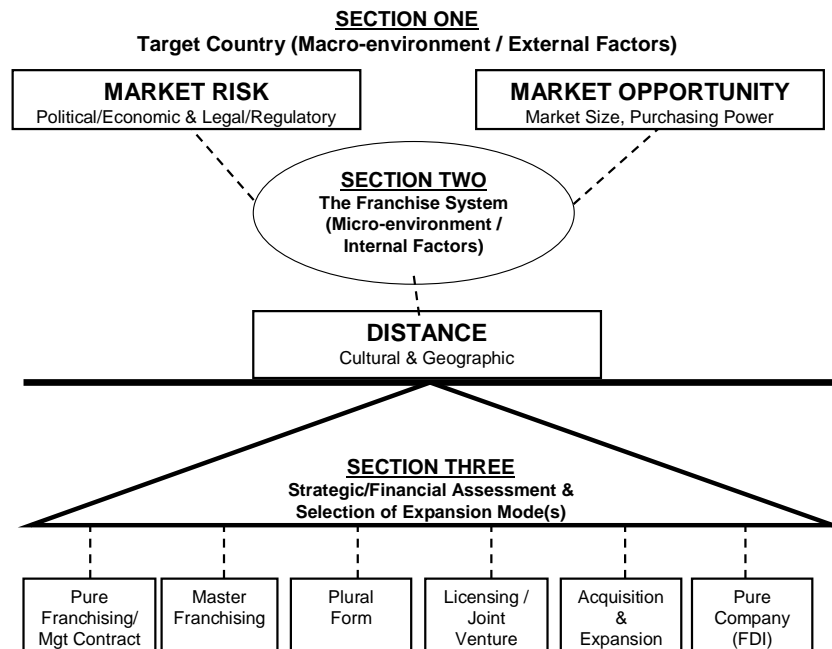
The model and the index generated from this project help establish the RICF (and UNH) as a leading institution with cutting expertise on franchise internationalization.

Expected Impact

It is expected that franchise firms may use the model, index, and/or methodology developed in this project to help them develop their international expansion strategies and plans. The model has already recently been featured in the IFA's publication *Franchising World*. The plan is to post the "International Franchise Expansion Index" on the RIFC website, making it accessible to a wide audience. The Index will be updated annually.

Scholarly Connection

As mentioned above, the model was presented at a number of international academic conferences and received with great interest by the academic community. Franchise internationalization is a major research focus in the RIFC research agenda. This project represents the first part of a three-section franchise internationalization process, as depicted below:



Section Two and Section Three will further expand the study into the country-, business-, and firm-specific success factors of franchise internationalization, and into the optimal selection of international expansion modes. It is expected that a number of academic presentations and journal publications will result from this work.

5. EVALUATION PLAN

The success of this project is determined by the interest and use of the knowledge (model, index, methodology) generated. As mentioned earlier, the IFA has shown a marked interest in this project. In fact, the IFA publication *Franchising World* has featured the model developed in this project. Just days ago, the Canadian Consulate in Boston requested a copy of the paper detailing this model. I anticipate more interest from franchise firms and other parties (individuals, government agencies, etc.) as this model is updated annually and publicized. Academics have also shown great interest during international academic presentations. In fact, we at the RICF are currently discussing a collaboration with Griffith University in Australia where we work jointly to develop an index of international expansion for Australian franchise firms. Finally, research papers detailing the model, index, methodology, and a number of applications will be submitted for publication in peer-reviewed academic journal.

A Community Engaged University
The Carnegie Foundation for the Advancement of Teaching