MASTER FRANCHISING AS AN ENTRY STRATEGY: MARKETING AND LEGAL IMPLICATIONS

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ABSTRACT

In this paper the authors investigate the establishment of franchise agreements as a viable alternative to enter a foreign market. Specifically, the spotlight is on the strategy called master franchising. The authors first review the concept of franchising and identify master franchising as a strategic option. Next, they focus on the mechanics of structuring the required agreements. Last, the authors explore strategies, trends, and current opportunities and limitations of international franchising.

INTRODUCTION

It is clear that franchising played critical role in the U.S. economy in the Twentieth Century, and will continue to be increasingly important in the Twenty-first. There are more than 1,500 franchises whose franchisees operate nearly 500,000 outlets in the United States, accounting for about *one trillion* dollars in annual retail sales, well over one third of total retail sales in the United States (www.franchise.org/news/usatoday/feb00.asp). Of particular interest is the fact that in many underdeveloped and emerging economies around the world, U.S. franchises are just now beginning to change the face and the feel of the marketplace. (Larson 2003). Our purpose for this paper is to explore how franchising has been used as an entry strategy and to look at some of the marketing and legal issues that are associated with the establishment of franchise agreements. In particular, our focus is on the strategy called *master franchising*.

Our presentation is structured as follows: First, we will review the concept of franchising and will identify master franchising as a strategic option. Next, we will focus on the mechanics of structuring the required agreements. Last, we will explore strategies, trends, and current opportunities and limitations of international franchising.

OVERVIEW OF FRANCHISING

In our context, franchising is "a method of doing business by which the franchisee is granted the right to engage in offering, selling, or distributing goods or services under a marketing format which is designed by the franchisor. The franchisor permits the franchisee to use the franchisor's trademark, name, and advertising."(USDOC 1987: 2).Therefore, the franchising contract identifies and defines the obligations and rights of the franchisor and the franchisee (Pizanti and Lerner 2003) and protects the financial interests of both sides (Castrogiovanni and Justis 1998). Under a traditional franchise relationship, the franchisor offers the right to distribute goods or

services that bear the franchisor's trademark, service mark, trade name, advertising, or other commercial symbol. There are two general types of franchise arrangements. *Product and trade name franchising*, characterized by product distribution arrangements in which the dealer is identified with the manufacturer or supplier (www.frannet.com/resource/international.html). As such, the franchisee concentrates on one product line. "The franchisor grants the franchisee the right to sell the franchisor's product(s) at a particular location within a particular territory" (Lamkin 2002).

The second type is *business format franchising* in which there is complete identification of the dealer with the buyer (www.frannet.com/resource/international.html). This option involves the licensing of a trademark or service mark, plus a standardized format for conducting business, and an image attached to the goods and/or services (Lamkin 2002).

In master franchising, a franchisor has the ability to open numerous franchise locations either individually, called *single unit franchises*, or by a process called *sub-franchising*. Sub-franchising is an important type of multi-unit franchising where some franchisees are granted the right to establish a minimum number of sub-franchises within an exclusive territory and over a specified period of time. In this sense, the selected franchisees become sub-franchisors. Sub-franchising increases the administrative productivity of the franchisor because a tier of supervision is created since the sub-franchisors will have the obligation to select and monitor the sub-franchisees (cf., Kaufmann and Kim 1995). There are three types of master franchising agreements:

1. *Area development agreements* are those in which the franchisor grants the franchisee the right to set up multiple franchises, but the franchisee is not granted the right to sub-license. The franchisor usually provides a schedule stating the dates by which the outlet must be set up. A developer manages a mini-chain of stores that often resemble a small local company owned chain

2. *Master franchising agreements* are those in which the franchisor grants to a trader known as the *sub-franchisor* or *master franchisee* the right to develop franchised business in a given area, and to grant to other parties the right to operate the franchised outlets as sub-franchisees (Gamet-Pol 1997).

3. *Joint venture franchising* is a situation in which the franchisor enters into joint venture agreements with a foreign firm within the country where the franchisor wants to develop the network (Gamet-Pol 1997)

Master franchising is especially prevalent in two circumstances. First, when a new franchise opportunity is being launched in the domestic market and the franchisor wishes to expand locations rapidly. The second circumstance is in international franchising, where the franchisor wishes to establish large territorial franchises (city/region/nation) through one individual or a single business entity that will then be responsible to create subfranchisees, either on the basis of an overall plan or according to the dictates of the market. For the subfranchisee, it is important to understand the distinction between a *contractual obligation* to create additional locations, a practice that may involve expansion before time or financial realities might dictate such

expansion, and the *opportunity to open* new franchise locations, based upon the existence of sound financial data and an exercise of business judgment.

In recent years, a majority of U.S. franchisors, including such giants as McDonald's, KFC, Pizza Hut, Holiday Inn, and Wendy's, have employed a multi-faceted strategy in creating subfranchises in foreign countries. Franchisors have awarded *multiple-unit franchises* to aggressive entrepreneurs who will develop an entire geographic region, either through their own efforts and resources or by subfranchising to third parties. Alternatively, franchisors may engage a foreign business partner through a *joint venture* or, in some cases, through a traditional *licensing arrangement*. The inclusion of multiple-unit franchises in a franchisor's overall development strategy or strategic plan allows for rapid market penetration and a reduction in administrative burdens and costs to the franchisor through effective cost-shifting techniques.

Pizanti and Lerner (2003) point put that in the academic literature there is a debate brewing over the desire of the franchisor for control versus the franchisee's desire for autonomy. From a franchisor's standpoint, control over the franchising agreement is meant to protect the brand name and to ensure its stability. From a franchisee's standpoint, however, a more autonomous agreement enables local adaptation to domestic needs. We subscribe to the notion that excessive levels of control or autonomy can be counter-productive and negative (Pizanti and Lerner 2003; Dant and Gundlach 1999; Kaufmann and Eroglu 1999). Insofar as implementation, the franchisor's control has limitations, such as monitoring capacity. Because of these limitations, a franchisee may enjoy de facto autonomy, especially in circumstances where the establishment of the franchise requires a certain amount of decentralization (Dant and Gundlach 1999).

Subfranchisors generally act as independent marketing agents and are responsible for the recruitment and continuous support of franchisees within their region. To ensure uniformity and in the exercise of its core *quality control* obligation, the franchisor controls how franchisees conduct their businesses. Typical examples of such controls include site approval, design or appearance standards, restrictions on goods or services offered for sale, restrictions on the method of operation, and restrictions on sales areas.

Franchisors may also establish *area developers*, who have no resale rights, but are responsible instead for meeting a "mandatory development schedule" in their region. Key issues in structuring an area development agreement revolve around the size of the territory, fees, and establishing a mandatory timetable for development of the individual franchise units. Additionally, there are three basic fees in the franchising relationship: the **franchise fee**, **the royalty fee,** and a **marketing or advertising fee.** The franchisor will typically retain certain rights in the event the franchisee defaults on its development obligations. The area developer will pay an umbrella fee for a region, termed a **development fee**. The amount of the fee is contingent upon factors such as the strength of the franchisor's trademarks, reputation, market share, the size of the territory, and the term (including any renewal period) of the agreement. The development fee is essentially a payment to the franchisor that prevents the franchisor from offering any other franchises within that region unless there is default, most especially where the franchisee fails to meet any mandatory development schedule.

STRUCTURING SUBFRANCHISING AGREEMENTS

In most subfranchising relationships, the franchisor will share a portion of the initial franchise fee and any ongoing royalties with the subfranchisor. In exchange, the subfranchisor will assume many management responsibilities in the region. The proportion in which fees are shared is in direct relationship to the responsibilities assumed by the subfranchisor. In addition, and as a reflection of the quality control obligation of the franchisor, the subfranchisor will receive a comprehensive regional operations manual that deals with sales and promotions, training, and field supervision. The regional operations manual will be more detailed than the information contained in the standard operations manuals normally provided to the individual franchisees because of the unique nature of the relationship between the parties in a subfranchising relationship.

Many franchisors provide extensive training at their own "*universities*" (e.g., *Hamburger University* (McDonald's) and *Dunkin' Donuts University*). Contents of a typical franchisee training manual, which are held to be confidential, might include: basic information on the industry, the franchisor, the franchise contract, licenses, and patents; financial and accounting information; marketing information; operations information; service and production information; and management and personnel information (cf., Justice and Judd 1998, Emerson 1990).

Some of the key marketing and legal questions that arise in structuring the subfranchising relationship include:

1. Division of franchise fees between franchise fees between the master franchisor and subfranchisor. Decide whether to include the subfranchisor as a party to the individual franchise agreements. Alternatively, the relationship may essentially exist between the master franchisor and an individual franchisee.

2. Specification of responsibilities of the subfranchisor regarding recruitment, site selection, training, and ongoing support to the individual franchisees within its region. The allocation of responsibility for the preparation and filing of "franchise offering and disclosure documents" in those states, or perhaps nations, where filing is required need also be decided. Franchisors must provide potential franchisees with written disclosures containing important information about the franchisor, the franchised business, and the franchise relationship (see Federal Trade Commission 1979). At present, 15 states have enacted laws regulating the offer and sale of franchises: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin. Konigsberg (1999) identifies the following nations that have adopted specific franchise legislation: The United States; Canada; France (Loi Doubin); Mexico; Brazil; Spain (Retail Trade Act); Australia (Franchising Code of Conduct); Indonesia (Government Regulation on Franchising); Russia (Civil Code); Romania; Republic of China; South Korea (Notice of Criteria of Unfair Trade Practices in Franchising); and Malaysia

3. Determination of mandatory development schedules and related performance quotas or sales volumes on the subfranchisor.

4. Decide whether the subfranchisor will be granted rights to operate individual units within the territory in his or her own name. If so, determine the franchise fee that would apply. Decide whether the subfranchisor will be obligated to pay the franchisor for the exclusive rights to develop the territory at the beginning of the relationship or when each individual franchise unit becomes operational.

5. Determine whether the franchisor will retain a "right of approval" with respect to the sale of individual franchises, especially regarding the background of any candidate, negotiating changes in the agreement, termination criteria, issues of cross-competition (especially relevant in automobile dealer franchises), etc. Additionally, determine whether the franchisor will reserve the right to modify the size of the territory or to repurchase it at some point from the subfranchisor. If a repurchase is required or is an option for the franchisor, the terms (especially financial) of the repurchase must be established.

6. Finally, decide what the contractual period of the arrangement is, and whether it may be extended.

To find answers and/or at least paths to answers, companies, franchisors, subfranchisors, or individuals should consult the websites of the International Monetary Fund (www.imf.org), the U.S. Department of Commerce (www.commerce.gov), and individual company websites to get a realistic sense of what the expectations are in these types of relationships.

THE REGIONAL DEVELOPMENT AGREEMENT

A subfranchisor may enter into a *regional development agreement* (RDA) with the master franchisor, under which the subfranchisor is granted certain rights to develop a particular region. The RDA is not in itself a franchise agreement and grants no rights to a subfranchisee to operate any individual franchise units. Rather, the RDA grants the subfranchisor *the right to offer franchises* to individuals using the master franchisor's marketing system and proprietary marks solely for the purpose of recruitment, management, supervision, and support of individual franchise units. To the extent that the subfranchisor itself is permitted to develop franchise units, a standard individual franchise agreement for each unit will be executed.

The relationship between the master franchisor and subfranchisor is both unique and complicated. The advantages of subfranchising to the master franchisor include the possibility of rapid market penetration, the delegation of obligations that the master franchisor would otherwise be required to fulfill to each franchisee in its "franchise network" to the subfranchisee, and the opportunity to collect a portion of the initial franchise and royalty fee from each franchisee, generally without the same level of effort that would be required in a more direct single-unit relationship.

JOINT VENTURES

In the context of international franchising, many prominent American franchisors have successfully penetrated foreign markets through the use of a joint venture agreement in which parties enjoy co-ownership and are responsible for co-development of the franchise market, and they also share risks (Harrigan 1988). The franchisor licenses trademarks and service marks to

the joint venture entity. A joint venture may also be established when a franchisor wishes to offer products or services to existing franchises. However, before a joint venture can be undertaken, several preliminary questions should be addressed, for example:

1. What tangible and intangible assets will each party contribute? Which party will possess ownership rights to the property? Who will own the property developed, created, or acquired as a result of the joint development efforts?

2. What covenants of nondisclosure or non-competition will be required of each joint venture partner during the term of the agreement and for how long a period after the agreement has been terminated or the relationship has ended? Nondisclosure agreements promote employee awareness of the importance of discretion concerning matters that can be explicitly defined. They frequently cover the franchise manual (Dworkin and Callahan 1998).

3. Will specific timetables or performance quotas be included in the agreement? What are the rights and remedies of each joint venture partner if these performance standards or quotas are not met?

4. How will the issues of "management and control" be addressed in the agreement? What are the procedures or mechanisms for resolving disputes, disagreements, or deadlocks? Is arbitration or mediation required?

5. What is the precise nature of the relationship between the parties? Will the relationship be a partnership, "official" joint venture, or assume some corporate form?

INTERNATIONAL FRANCHISING: STRATEGIES, TRENDS AND CURRENT OPPORTUNITIES

Global expansion of franchising continues to boom despite the existence of political and economic hurdles— what finance experts term as the area of *political risk*. Political risk may arise from a variety of sources, including: corrupt or poor political leadership; frequent changes in the form of government; political involvement of religious or military leaders; an unstable political system; conflict among races, religions, or ethnic groups; and poor relations with other nations (Wild, Wild & Han 2000: 90). Political risk can take many forms, including conflict and violence; terrorism and kidnapping; property seizure (confiscation, expropriation, and nationalization); frequent policy changes; and local content requirements. For example, there is sustained interest in Mexico, South America, and Europe (especially Central and Eastern Europe), despite continued political and economic unrest and uncertainty (Gatland 1999; Hunter & Ryan 1998; see also *Franchise Facts and Figures*, www.franchiseinfomall.com/infofacts.html). Franchising continues to grow rapidly in Japan, despite extreme cost factors for land acquisition and leasing (especially on the highly prized Ginza), and other impediments to "start-ups" on the retail side. Recent economic declines in many nations of Western Europe have not dampened enthusiasm for franchise expansion. In fact, franchising continues to expand in Germany, despite an economic recession, rents four to five times higher than comparable real estate costs in the United States, and the necessity that a

reunited Germany restart and integrate the economy in its eastern territories, long stagnated under communist domination.

Direct government assistance programs and rapidly expanding economies have helped franchising grow rapidly in many Pacific Rim nations. Franchising opportunities are especially strong in Singapore, Malaysia, Indonesia, Hong Kong, India, and Taiwan. Who could imagine that there would be sustained interest in franchising in the "emerging markets" of China and Vietnam? (Until recently, it might have been hard to envision the "Golden Arches" in Tienneman or Red Square or in Ho Chi Minh City)

Naturally, these enhanced opportunities bring certain unique challenges not found in domestic franchising. Accordingly, appropriate entry and marketing strategies must be developed that indicate that the franchisor is not merely attempting to exploit or overwhelm a host country's economy. In many cases in the past, attempts were made on a "trial and error" basis. In fact, it was only in the mid-1960s that a few fast food chains began experimenting with foreign operations. McDonald's made its first major international push in 1970. Yet by 1992, McDonald's was generating fully 39 percent of its $21.9 billion in worldwide system sales from its international operations. What is worth noting is that McDonald's was successful in its international operations employing the same formula as it had perfected in its domestic operations, even though the "culture" was quite different. Fast food, drive-ins, and self-service restaurants were a uniquely American phenomenon. McDonald's had to export practices (and eating habits) that were endemic to the American middle class but virtually unknown throughout the world. Indeed, "whenever McDonald's International departed from its tried-and-true franchising methods, it stumbled" (Love 1995: 416). However, several well-known counter-examples are also worth noting.

The McDonald's corporation has been the object of intense scrutiny of its international franchise operations (Love 1995). McDonald's opened its first retail outlet in Iceland, but had to build an underground parking lot to attract customers who would not venture out into the extreme temperatures. McDonald's soon learned just how difficult it was for Japanese to pronounce McDonald's. The local franchisee, Den Fujita, made the pronunciation simple by transforming the name into *Makudonaldo*! For the same reason, Ronald McDonald became *Donald McDonald* in Japan.

In Australia, the standard menu had to be designed to cater to uniquely Australian tastes. Australian McDonald's featured English-style fish and chips instead of the regular McDonald's *Filet-O-Fish* sandwich. McDonald's in Germany added beer (and considered adding bratwurst) to its menu. Store interiors featured dark colors, and an extensive use of wood and low-intensity lighting. One location in Munich was built to resemble a beer hall. McDonald's opened several locations in Israel, but spent some many months in negotiations with the Israeli Ministry of agriculture over the importation of the proper type of potatoes for its French fries and its hours of operation. The local joint venture partner had to assure McDonald's corporate office in the United States that closing from sundown Friday through sundown Saturday every week in celebration of the Sabbath would not negatively impact the overall profitability of the operation. It is not at all unusual for patrons in a Paris McDonald's to order a glass of wine with a "Big Mac" combination meal or for London customers in the Victoria Station vicinity to enjoy a lamb burger special meal or "crisp fries," which were very different from the soggy products regularly

served in fish and chip outlets! There was also a controversy regarding the site location for the McDonald's in Krakow, Poland, and the architectural and historical considerations present in placing a restaurant in a five hundred year old building near one of the oldest medieval market squares in all of Europe. The widely publicized experiences of McDonald's and countless other franchisors, remind us that flexibility and adaptability must be the watchwords in international franchising.

SPECIAL CONSIDERATIONS FOR INTERNATIONAL FRANCHISING

What kinds of special issues should the master franchisor and possible franchise partners address before contemplating expansion into a foreign market? Some of those issues include the concepts of *gray marketing*; trademark registration requirements, availability, and protections; and the costs, nature, and methods of dispute resolution.

The issue of gray marketing is of particular interest. "Gray" goods are genuine in terms of their manufacturer, but their distribution is "unauthorized" because the manufacturer or trademark registrant has not authorized the seller to make the sale (Inman 1993). Gray market goods are not counterfeit goods and are thus not subject to the Trademark Counterfeiting Act. Franchisors must take care that its goods, sold to overseas distributors, are not re-imported into the United States in competition with domestic goods. Franchisors must also be aware of "nongenuine" goods. Goods are considered as "nongenuine" not because the trademark is false, but because the product is different from the product sold under the same trademark domestically (see Original Appalachian Artworks v. Granada Electronics, 816 F.2d 68 (2d Cir. 1987), cert. denied, 484 U.S. 847 (1987)).

The master franchisor must know the inherent value of the franchise. Any fee structure must fairly and realistically reflect the division of responsibility between the parties. Can the franchisor provide the necessary on-site support for the franchisee, including the ability to adequately translate training manuals and marketing materials into the local vernacular, as well as the ability to adapt the system, products, and services to meet local demands and cultural differences as necessary and warranted? The master franchisor must be sensitive to different tastes, cultures, norms, traditions, trends, and habits within the international market that will affect pricing, size, or other characteristics of products or services. Franchisors should be prepared for a "long-term" business relationship and should be willing to accept a more balanced and realistic approach to fees and ongoing royalties than might be expected in the more structured domestic market.

The master franchisor must completely understand international copyright and trademark laws, which may vary in practical terms from country to country, or which, in reality, may not provide much protection at all. The franchisor must take all legitimate steps to protect its intellectual property rights, its trade secrets, and to register trademarks in all target markets. The master franchisor must determine if the franchisee should have the right to modify names, designs, slogans or logos because of translation difficulties or because of "pirating" problems that may have previously occurred.

In terms of its responsibility to provide quality control assistance to a franchise partner, the master franchisor must possess a core internal management team (consisting of key personnel in

operations, marketing, management, and finance) and a competent cadre of external advisors (consultants, accountants, and lawyers) who have practical experience in international business and international franchising. An American franchisor will often require that a process called *ethnocentric staffing*, where individuals from the United States manage operations outside the United States. Under *polycentric staffing*, franchise operations outside the United States will be managed by individuals from the host country. *Geocentric staffing* occurs where the best-qualified managers, regardless of nationality, manage franchise operations. Most international franchising initially adopted the *ethnocentric* model, which may have caused some difficulties in acceptance by the local franchisee or the local population.

IMPEDIMENTS TO INTERNATIONAL FRANCHISING

The International Franchising Association (1998) has identified several "red flags" for the prospective master franchisee in evaluating the international franchisor. We will amplify on several of these seeming impediments.

The existence of unregistered and unprotected trademarks and copyrights in the domestic market may indicate potential difficulty in protecting important intellectual property rights. A promising recent development is the power given to the World Trade Organization (WTO) to enforce intellectual property laws. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Enforcement of the WTO sets detailed minimum standards of protection that each member nation must provide. Industrial property is protected internationally by the Paris Convention for the Protection of Industrial Property, to which nearly 100 nations are signatories. The Berne Convention and the 1954 Universal Copyright Convention protect copyrights internationally. More than 50 nations abide by one or both of these international treaties.

Lack of international experience or a weak domestic foundation indicates the strong potential for a lack of quality control support. *An extensive history of litigation* indicates potential problems surrounding the interpretation and enforcement of the franchise contract. *Weak balance sheets* indicate the lack of adequate financial resources that might impact on long-range planning and long-range prospects for a solid and continuing relationship between the parties.

Overly excessive control by the franchisor over franchisees indicates a lack of confidence in the ability of the franchisee to carry out quality control responsibilities or the lack of on site support staff. *Contractual provisions which require the franchisee to purchase all or substantially all of its inventory and supplies from the franchisor or its affiliates or designees*, while potentially legal in many nations in the *international* arena, but generally not in the United States, may indicate that the franchisor who has adopted the "tie-in" model may be too dependent on income generated from sales of goods and services that might not be available in the future. A *tie-in* occurs where a party refuses to sell a product to a customer unless the customer also buys another product. Under the requirements established to prove an illegal tying arrangement, one of the products can be a trademark or a service mark or even the franchise contract itself.

An excessive number of "hidden fees" charged by the franchisor, such as lease renewal fees, consulting fees, additional training fees, "oversight" fees, transfer fees, commissions, or fees providing for banking and financial assistance may indicate that the franchisee might encounter difficulties in meeting financial obligations. *Franchisors who assume "location control"* by serving as the sublessor potentially create problems should a franchisee determine that a location is unsuitable for the continued success of the franchise. The issue of exclusive franchise territory is associated with "location control."

Excessive and burdensome covenants against competition during and after the term of the franchise agreement indicate that skills learned as a franchisee are essentially nontransferable for a relatively long period of time after the franchise relationship has ceased. *Overly stringent conditions imposed upon renewals upon the expiration of the term, or extremely broad grounds for termination*, such as excessive renewal fees, burdensome or incomprehensible release forms, or the ability of the franchisor to deny renewal for trifling matters or for even one breach of the agreement may indicate that the franchisor is more interested in selling and reselling franchises than in assuring the success of existing franchises or in assuring a long term relationship. *Contractual provisions which provide for the termination of the agreement upon the death of the franchisee without the right to transfer* the franchise to an heir or to a surviving spouse indicate that the franchisor may not be interested in the orderly transfer of property rights or in the continuance of a family member in an essentially family-owned and family-operated business.

Absolute discretion being vested in the franchisor in certain key areas such as approval of suppliers, approval of transfers, or in the allocation of advertising funds indicates a lack of willingness to truly partner with the franchisee or permit the franchisee to develop sufficient business acumen to become a successful and potentially independent entrepreneur. *Provisions which provide no security or assurance of geographic exclusivity*, which could result in market saturation, indicate that the franchisor lacks a belief in its own marketing plan, or that the franchisor does not believe that a potential franchisee possesses the qualifications and characteristics necessary for success.

An inexperienced management team that knows little or nothing about franchising or an overly strong dependence on one particular person (the "one man band" problem) may indicate a lack of belief in the long range future of franchise operations. *An unclear or ambiguous statement of the exact duties* of the franchisor and support services that will be provided, essential for maintaining quality control, may indicate a lack of knowledge on the part of the franchisor or the lack of managerial or financial experience. Last, *a very short or shallow training program* (showing a lack of quality control) or *an excessively long training program* (more than 4-6 weeks) might imply a high degree of difficulty in teaching underlying concepts or might indicate that training is inadequate to guaranty a reasonable chance of success for the franchisee.

CONCLUSION

Obviously, the key to success in international franchising lies in finding the right partner. The franchisor must develop and test objective systems and standards for recruiting and selecting appropriate international partners and for reviewing the qualifications, experience, and financial ability of franchise prospects.

The master franchisor must engage in a detailed corporate "soul searching" and completely understand both its strengths and weaknesses. It must have a secure, "rock solid" domestic foundation from which its international program can be launched, including adequate capital, resources, personnel, language facility, support systems, and training programs. The master franchisor must know the "target market," and must appreciate the importance of such issues as: economic trends; political stability and political risk; currency exchange rates, ease of currency convertibility, and currency repatriation questions; foreign investment restrictions and approval procedures; the existence and frequency of currency "bottlenecks"; transparency of administrative regulations; land purchase and leasing restrictions; access to resources and raw materials; availability and quality of transportation and communication channels; labor and employment laws; technology transfer regu1ations; language and cultural differences; the availability of government assistance programs; taxation questions; customs laws and import restrictions; and immigration restrictions regarding outside personnel, especially as such laws might impact on certain "key" managerial employees involved in training of joint venture partners. In short, master franchisors must utilize the concept of environmental scanning by investigating all areas that are out of the franchisor's and franchisee's control in order for potential success in new marketplaces.

As evidenced by the growth of American chain restaurants in Europe, South America, and Asia, master franchising is a well-regarded expansion strategy that companies utilize to expand their businesses. According to Dant (1995) and LaFontaine (1992), the use of franchising helps companies overcome financial constraints. Both researchers find that franchisors cite capital access as one of the important reasons for adopting franchising as a growth strategy. Thus, the use of franchising might be a solution to financial resource constraints. Sen (1998) focused his research on restaurant industry franchising and suggests that a chain's existing mix of company owned and franchised stores is likely to be influenced by its past growth strategy. He further suggests that an increase in franchising is also likely to be lower for firms that already have a higher proportion of franchised outlets. This occurs because firms are likely to increase their use of franchising up to certain limits as synergistic benefits are available through the maintenance of both company owned and franchised stores. Other retailing sectors such as real estate, hotels and motels, business consultancies, and automotive services continue to franchise in foreign markets seeking the same expansion plans and synergistic benefits as their restaurant counterparts.

Our intention in this article is to present international franchising as an exciting and potentially lucrative strategy for both franchisors and franchisees at various stages of growth and in a wide variety of industries. However, if not properly planned and executed, international franchising can easily turn into an expensive and disastrous venture that may dampen a company's ability to penetrate an important target market.

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