

Competitive Advantage in the Global Economy

Module 9: Expanding Overseas: Part II

Module Introduction

Readings

Required

Review Chapter 6 in *Global Strategy*

Grębosz, M., & Otto, J. (2013). [International expansion of brands by realization of co-branding strategy \(https://csuglobal.idm.oclc.org/login?url=https://search-ebscohost-com.csuglobal.idm.oclc.org/login.aspx?direct=true&db=bth&AN=93438250&site=ehost-live\)](https://csuglobal.idm.oclc.org/login?url=https://search-ebscohost-com.csuglobal.idm.oclc.org/login.aspx?direct=true&db=bth&AN=93438250&site=ehost-live). *Journal of Economics & Management*, (14), 77-87.

Recommended

Deutschmann, M. (2014). [A system of country market and entry strategy choice: A new holistic model of internationalization \(https://csuglobal.idm.oclc.org/login?url=https://search-ebscohost-com.csuglobal.idm.oclc.org/login.aspx?direct=true&db=bth&AN=94308351&site=ehost-live\)](https://csuglobal.idm.oclc.org/login?url=https://search-ebscohost-com.csuglobal.idm.oclc.org/login.aspx?direct=true&db=bth&AN=94308351&site=ehost-live). *Global Management Journal*, 6(1), 31-42.

For Your Success

Franchising is an attractive method of overseas expansion. It reduces risks for both the franchiser and franchisee. Yet, the method isn't fool-proof and many franchises crash and burn. The keys to success include sufficient capital, knowledge of the local market, and an ability to differentiate your product or service from the competition.

For this week, you will complete a Critical Thinking Assignment where you will describe businesses that might be best suited for using an export-based strategy or an equity investment strategy to expand overseas. Think about factors such as risk, cultural differences, and how best to address the competition. There is no Live Session this week.

Learning Outcomes

- . Define several entry-level strategies for entering foreign markets.
- . Describe the process of identifying markets to operate in.
- . Explain equity- and non-equity-based modes of entry into foreign markets.

1. Strategies – Diving In



If personal contact with the foreign market is important to your business, exporting is probably not for you. However, there are other ways to establish your business overseas. One common method would be to open a branch location or franchise in another country. Consider McDonald's, a company where 80 percent of the restaurants are owned and operated by franchisees. McDonald's operates in about 100 countries around the world, to include Saudi Arabia. This link takes you to McDonald's website that is specifically designed for its Saudi Arabian customers:

<http://www.mcdonaldsarabia.com/ksa-riyadh/en/home.html>

[\(http://www.mcdonaldsarabia.com/ksa-riyadh/en/home.html\)](http://www.mcdonaldsarabia.com/ksa-riyadh/en/home.html)

Consider the following video, which looks at the franchise model from many different angles:

How Franchising Works: An Illustrated Guide

(Source: <https://youtu.be/6fidL51oakg>)

An efficient business model blamed by some for low wages, franchising squeezes small-business owners between corporations and workers. Here's a run-down on how it works. Part of a WBEZ/Front and Center investigation series.

As you can see from the video, success is not a guarantee. Each stakeholder -- the franchise owner, the franchisee, the employees, and the consumer -- has different and sometimes conflicting interests. And, while the franchise system is designed to lower risk and promote success, franchises fail at almost the same rate as non-franchise new businesses.

By establishing a branch location or distribution center overseas, you are becoming part of the local market in that country. This means that you will be contributing to the local economy with rent and tax payments, and possibly employing local residents in your enterprise. You will need to work closely with government authorities to ensure that you properly register your business, report income, and stay within the law in the operation of your business. Most importantly, you will have to know the local market well enough to know where to establish yourself in that market. This requires good contacts, relationship building, and knowledge of the location.

You may be surprised to learn about the types of companies that decide to follow this route. Some of the larger, and a few of the smaller, ones can be found on this list:

<http://www.franchisedirect.com/top100globalfranchises/rankings/>

[\(http://www.franchisedirect.com/top100globalfranchises/rankings/\)](http://www.franchisedirect.com/top100globalfranchises/rankings/)

What do you notice about this list? What types of products or services appear best suited for franchising? How many different countries are represented in the top 100 global franchises? What types of franchises do you think would work best in the Middle East?

Now take a look at this list of franchises in Saudi Arabia:

<http://www.franchisedirect.com/internationalfranchises/saudi-arabia/183/>

[\(http://www.franchisedirect.com/internationalfranchises/saudi-arabia/183/\)](http://www.franchisedirect.com/internationalfranchises/saudi-arabia/183/)

What strikes you about the franchises listed at this website? Why do you think they are successful in Saudi Arabia? Are you surprised by the amount of cash required to invest in some of these franchises? Have you used any of these services or products?

Of course, these are well-known companies with substantial revenue and global reach. But even smaller companies can engage in global markets more easily today than ever before by opening foreign locations. They may partner with a related company that already exists overseas (for instance, if you sell pencils you may find a stationery supplier abroad); they may open small shops to sell their goods directly; or they may link up with distribution networks that help to get their product to market in a number of places. Unlike exporting, these processes require distribution or franchise agreements with foreign partners.

As demand for foreign goods continues to grow, and as disposable income for foreign citizens continues to increase, the opportunities to enter foreign markets will expand. Ignoring this trend may be detrimental to a new business venture.

2. Strategies – Don't Dive In Just Yet...



While franchising can be a lower-risk path toward global expansion, it is not fool-proof. According to Strauss (2014), there are a number of reasons why franchises will fail. In his interview with franchise guru Sean Kelly, *Strauss highlights a number of important lessons learned for*

Lesson 1

The term “hot new franchise” is an oxymoron

Would-be entrepreneurs are eager to get in on the ground floor of a trendy new business. What they should do is the exact opposite, says Kelly. “The benefit of a franchise is really to buy something that’s been proven over a period of time. Hopefully something that’s been proven over different economic climates. So it’s done well in good times and in bad” (Strauss, 2014, para. 4).

Lesson 2

Franchises fail with about the same frequency as independent businesses

The myth that franchises are less prone to failure than other small businesses is simply that. The reality is that they generally go out of business at the same rate. However, which franchise you choose can make a big difference, says Kelly. “Some franchise chains have failure rates as high as 80% to 90%, while others have almost no failures. Don’t be seduced by vague statistics or common wisdom; do careful research on the specific franchise you are considering to determine how many franchise owners are still in business through the full terms of their franchise agreements” (Strauss, 2014, para. 6).

Lesson 3

Hire a seasoned franchisee attorney before you sign a contract

The number of people that buy into a franchise without having a lawyer explain the contract agreement to them is astounding, says Kelly. Ignorance, in franchising, is not bliss—it’s a potential nightmare. “They’re making this huge commitment of hundreds of thousands of dollars up front, they’re securing it with their house, they’re committing to what they’re going to be doing sometimes for the next 10 or 20 years of their lives. It’s remarkable how many of them won’t hire somebody who is experienced in franchising to help them the franchise opportunity that they’re looking at or even go through the franchise agreement and explain to them what they’re signing” (Strauss, 2014, para. 9).

Lesson 4

Don’t expect government oversight or help

Franchisees are not consumers and not protected as such; they are considered entrepreneurs

and business investors. Despite what some would-be franchisees believe, the government oversight in the industry is paltry at best. “The (Federal Trade Commission) instructs franchisors to disclose certain types of information to franchise buyers, but doesn’t check to see if they do so,” says Kelly. “If your franchisor doesn’t perform as promised or if you later feel you were lied to or misled, it’s likely that your only recourse will be to hire an attorney and file an expensive lawsuit” (Strauss, 2014, para. 12).

While franchising is an appealing method for global expansion, there are many reasons why franchises fail. Many problems are related to insufficient capital, while other problems are created by an inability to differentiate the franchise from the competition. Success stories abound – as mentioned above, McDonald’s operates in about 100 countries to include the Middle East and Subway’s 40,000 stores include Djibouti – but the failure of many franchises like Radio Shack and Mrs. Field’s Cookies show that this method of expansion is not fool-proof.

Check Your Understanding

Test yourself on some of the concepts covered in Module 9 in this brief quiz.

[Click Here to Begin](#)

References

Strauss, K. (2014). 13 mistakes new franchises make. *Wall Street Journal*. Retrieved from <http://www.forbes.com/sites/karstenstrauss/2014/05/27/13-mistakes-new-franchisees-make-and-how-to-avoid-them/>