

Master franchising

Franchise remains key to growth

Franchising is a well-established route for retail brands to grow their international coverage without having to tie up large amounts of capital. And for some it has been enormously successful, Graham Parker reports

IT IS exactly 50 years since Fred DeLuca co-founded MAPIC stalwart Subway with a single store in Connecticut, US. Today, there are more than 37,000 Subway stores in 100 countries, from Afghanistan to Zambia. And every one is independently owned and operated by a franchisee. The UK, with 2,000 sites, is the largest market outside North America for Subway.

But franchising is not without its challenges. Success depends on ensuring that the interests of the brand and the franchisee are aligned and that there is personal synergy between the key players on both sides, so that the lines of communication are as clear as possible.

While the retailer brings the power of its brand and the merchandise to the party, the franchisee needs to offer local know-how, access to capital, access to the right locations and the ability to run a retail business on a day-to-day basis. Retailers need to perform a lot of due diligence to be confident that potential partners can deliver all this if they are to avoid damaging their brand through failed overseas ventures.

This is where MAPIC comes in with its speed-matching sessions, which are designed to allow brands to make contact with qualified local partners from a wide range of markets.

In some markets, such as those in the Gulf region, franchising is mandatory because all businesses have to be majority-owned by local partners. This has led to the growth of several very powerful businesses that, in some cases, are larger and better capitalised than the global retail brands they represent.

A prime example is Alhokair Fashion Retail, which was formed in Saudi Arabia in 1990 and has grown to represent over 80 fashion brands across womenswear, menswear, kids and baby, department stores, shoes and accessories, cosmetics, F&B and entertainment. It trades in more than 2,300 stores across 100 shopping

malls in 17 countries, occupying a total GLA of over 500,000 sq m.

Business development director Brendan Dorrian claims the company “would like to grow to 1,000 brands” and says that structuring the organisation around brand teams and targets meant “healthy internal competition” would sustain further growth.

He says the company had managed its current expansion by focusing on a “retail Xerox” strategy, which means that it delivers exactly what any retail partner expects through rigorous replication. The company is also acquiring brands and here he said “differentiation, relevance, viability and cultural fit” were the four pillars of agreeing a deal.

Similarly, the Alshaya Group is active in a number of other sectors including real estate, automotive, hotels, trading and investments. From one store in Kuwait the portfolio of leading international brands it operates has grown to include over 70 brands and 3,000 stores in markets across the Middle East and North Africa, Russia, Turkey and Europe.

In addition, many brands will be at MAPIC looking to grow through franchising, including OBI, Beverly Hills Polo Club, Vapiano, Steak ‘n Shake, Bizou, Debenhams and Hunkemoeller, to name just a few.

One new challenge is considering online and franchise sales, in particular for those retailers delivering online into countries where they already have partnership agreements with franchisees, which face a number of “cannibalisation and legal hurdles”, says John Scott, director of international business development at UK department store group Debenhams.

Debenhams has established 85 stores across 27 markets, using a franchise model, while it also delivers via e-commerce to around 70 markets. “The situation has been compounded because emerging markets have ‘jumped the rail’ in terms of omni-channel retail,” he says. “We have until now operated our channels as silos internationally but the pace of change in those emerging markets has meant they are hard on the heels of the developed markets.”



Debenhams has established 85 stores across 27 markets using the franchise model