

Welcome to IF Consulting's weekly e-mail newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

Law call for franchising development

A Chinese government official called this week for more publicity to be given to franchising regulation, given the national boom the industry is currently experiencing. Wang Xiaochuan, deputy director of the Department of Commercial Reform & Development with the Ministry of Commerce said, "The nation's commerce has maintained an annual growth of about 15 per cent for 24 consecutive years and the development of franchising is also very optimistic." According to Xiaochuan, the development of the franchising business in China needs to be backed up by a national law, an issue that has been on the State Council's agenda since 2001.

To date, a poor legal environment for the industry in China has seen some franchisors maintaining questionable business practices and even cheating franchisees, while reports of cases where franchisees have delayed payments to the principal, or infringed the intellectual property rights of franchisors are also not unusual.

There are currently around 1,900 franchising systems in China, the largest number in the world. More will be introduced with the conclusion of the three-year transitional period following the nation's entry to the World Trade Organization approaching soon.

McDonalds, which opened its first restaurant in China in the early 1990s, now has over 600 outlets in the nation, yet waited until the autumn of 2003 to open its first franchised restaurant in the country. James M. Kramer, vice-president of the International Franchising Shareholder of McDonalds explains, "We are anxious to expand our conventional franchising programme in China where it will be very difficult to operate and manage all restaurants without the support of a network of franchisees."

http://www.chinadaily.com.cn/english/doc/2004-10/20/content_383961.htm

IF Comment

Franchising offers a great many benefits to the small businessperson: access to a proven business format, great earning potential, economies of scale, established brand image, ongoing training & research, among many others. And franchising offers advantages to the channel principal as well; greater local knowledge, motivated workforce, low-capital expansion and lower cost-to-serve.

However, even with properly designed and signed franchise agreements, arguments do arise. Sometimes these cannot be solved between the franchisor and franchisee, and these conflicts go to arbitration or litigation.

In the absence of a properly functioning legal environment, serious franchisors avoid even the most promising markets. If endemic corruption or gross partiality contaminate the rule of law,



Marketing Channel

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franchisors risk losing the most valuable of assets: the knowhow of the franchise system and the sole rights to the brand. (A common option is to enter the market in partnership with a strong local player who can use its local influence and connections to protect the franchisor's interests in any disputes, but this alternative throws up a whole new set of risks.)

Even though China has been achieving miraculous rates of growth for 25 years, franchising icon McDonald's only signed up its first franchisee one year ago. Prior to that milestone, it had planted a large footprint in the Chinese market via a massive investment, beginning in 1989, in a network over 500 company-owned stores. The uncertainty of the ability to turn to the courts for impartial enforcement of contracts and adjudication of disputes is believed to be one of the primary obstacles to the expansion via franchising McDonald's employs across the globe.

Franchise principals must have procedures in place for minimising the frequency of, and handling instances of, conflicts with franchisees. But if even those measures fail, clear rules and principles are essential. China's moves toward a formalised body of franchise law show that it recognises the contributions franchising can make to its continuing growth.

Snippets

Video-rental heavyweight Blockbuster is facing a third-quarter loss and a bleak outlook for the movie-rental business. Facing increasing competition from rivals with alternative marketing channels such as online video renter Netflix and Amazon.com, Blockbuster expects the rental business to continue to slide in 2005.

http://www.usatoday.com/money/companies/earnings/2004-10-27-blockbuster_x.htm

New technology and a faceless distribution network over the Internet are contributing to a rising number of counterfeit tickets to sports events and concerts. Courtesy of inexpensive scanners, color printers and easy-to-use publishing software, as well as a distribution network that can protect anonymity, the counterfeit ticket industry is growing exponentially.

<http://www.nytimes.com/2004/10/28/technology/circuits/28tixx.html> (Free registration required)

DaimlerChrysler has revealed that it is implementing a simple, cost-effective Web-based information system for dealers and independent repair shops worldwide. The new technology will enable DaimlerChrysler to boost customer support at dealerships through improved maintenance quality and efficiency and decrease the operational costs and complexity for supporting its worldwide network of service and repair workshops.

<http://www.datamonitor.com/~8bdf2ad2d39c44728358880dc05ee4b9~/industries/news/article/?pid=EC27CE07-9CC7-475F-95BA-D01D8F6446D3&type=NewsWire>

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