

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.

The bread and butter of franchising in China

Bringing Subway to China has not been easy for entrepreneur Jim Bryant. Renowned as a risk-taker and referred to in Beijing as "The Franchise King", the businessman cites various setbacks in his quest to establish the fast-food franchise in mainland China, including: losing money to a scheming partner, being beaten up and having to teach the franchising concept to a country that had never heard of it. Subway franchises may now outstrip the number of McDonald's outlets in the U.S., but expansion in China has been very slow. Instead of operating the 38 stores he had forecast, Bryant has managed to open just 19 stores in Beijing over the past ten years.

Although lured by China's growth and trading opportunities that have recently become available, Bryant was not alone in underestimating how hard it is to become established in the country. Brands which have already fallen by the wayside include A&W, Chili's Grill & Bar, Dunkin' Donuts, and Rainforest Café. In comparison to the franchises that have already packed up and gone home, Subway is actually doing well in China. It is the third-largest U.S. fast-food chain in China, behind McDonald's and KFC, and all of its stores profitable.

Bryant believes the problems stem from his early decisions. "I fault myself for coming here too early," he reflects. Steve Forman, Bryant's U.S.-based financial backer, is more sceptical. "Doing business in China is very, very difficult for a small company," he says. "They eat you alive."

<http://www.fortune.com/fortune/smallbusiness/articles/0,15114,1032654,00.html>

IF Comment

Jim Bryant's experiences as a Subway franchise development agent in China include some wild tales of swindles and fistfights, and that seems to be the way Mr Bryant likes it. In a vast, rapidly developing market where franchising has been a legally recognised business concept for less than 10 years, such a freewheeling approach has a lot to recommend it.

However, as the franchise network grows and the customer base matures, pioneers like Mr Bryant often find themselves in less stimulating environments. Mr Bryant now complains that the fun part is over, and he is left with the more tedious duties of being a franchise manager, such as store inspections and product quality checks.

Entering a new market requires the cooperation of three distinct roles: finder, minder and grinder. The finder scours the landscape for opportunities of varying shapes and sizes, while the minder keeps an eye on operational management issues such as quality and finance, and the grinder (in this case, the franchisees themselves) look after the day-to-day fulfilment tasks. The difference among these is that the minders and grinders are always valued but the finder's talents are called upon only in the developmental stages. And combining the two



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roles of finder and minder in one person, as in Mr Bryant's case, may not be successful either, as the personality types diverge.

In entering new markets, franchise principals may wish to build a transition process (from seat-of-the-pants recruitment efforts for building a network from scratch to a more managerially focused organization) into franchise network development plans to deal with these issues before a leadership succession crisis emerges.

Snippets

Krispy Kreme Doughnuts is withdrawing its concept bakery stores from Wal-Mart this week. The five outlets were an unsuccessful experiment according to a company spokeswoman. "It was a test, and we've made a decision right now that the concept is not viable, but we're going to continue our great relationship with Wal-Mart with our wholesale business," spokeswoman Amy Hughes said this week.

http://www.usatoday.com/money/industries/food/2005-03-23-krispy-kreme-walmart_x.htm

Bank of America has committed to the purchase of financial services provider, KeyCorp's, prime indirect automobile loan portfolio, consisting of \$990 million and 89,000 customers. Tim Russi, president of Dealer Financial Services at Bank of America, said, "This action demonstrates the continued commitment of Bank of America to the auto industry and specifically to the growth of the retail indirect channel."

<http://www.datamonitor.com/~d94078297568440ba343bd4b41cb71d9~/industries/news/article/?pid=B3A8A235-58BC-40C1-B1F8-FBB3B5F262B9&type=NewsWire>

According to a new study released by The William Rosenberg International Center of Franchising at the University of New Hampshire Whittemore School of Business and Economics, franchisors create more value and perform better financially than their non-franchise competitors. The researchers found that the minimization of agency problems, having access to cheaper capital, motivated managerial expertise and better local market knowledge meant that public restaurant franchisors in the U.S. had created more value than their competitors over the 10-year period 1993-2002.

<http://www.newswise.com/articles/view/510737/>

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