

Welcome to IF Consulting's e-Newsletter

December 11, 2006

This is IF Consulting's final email newsletter for 2006. We would like to wish all of our email subscribers and clients the very happiest of festive seasons. We hope that you, and your marketing channels, have a healthy and prosperous year in 2007.

IF Consulting's electronic newsletter, investigating topical and interesting issues relating to marketing channel strategy, will recommence on a monthly basis from January 22, 2006.

Retailers favor franchising

Franchising is emerging as the favourite marketing channel strategy for international retail chains seeking to enter India. Industry sources say that both Tesco and Carrefour are looking to follow Wal-Mart's lead in establishing a presence in India through franchisees.

India has complex foreign direct investment, or FDI, regulations, which mean that international retailers who have set up shop in India have opted for franchising deals with local partners or entered into joint-venture partnerships with Indian companies.

FDI rules were relaxed somewhat this year, allowing 'single-brand' retailers, to enter the market with a 51 per cent stake in their Indian business operations. Whilst some have leapt at the opportunity, other "single brands", such as Gap, Zara, Ralph Lauren, Old Navy and Banana Republic, seem to be waiting until the government allows 100% FDI, presumably because their philosophy is to sell their brands through company-owned exclusive retail stores.

<http://economictimes.indiatimes.com/articleshow/690331.cms>

http://money.cnn.com/2006/03/23/news/companies/walmart_india/index.htm

IF Comment

Given that very few major retailers have succeeded in expanding their concepts internationally, Wal-Mart's decision to enter India via franchising is not surprising.

Some notable failures are Marks & Spencer, Wal-Mart in Germany, Home Depot in Argentina and Ahold in Latin America. All of these companies, and many more, entered international markets with wholly owned subsidiaries. In many cases, international expansion in retail fails because of lack of local knowledge of supply chains, labor laws, real estate laws and Western attitudes to corruption.

Many smaller retailers do, however, succeed internationally. These are often retailers with a manufacturing facility behind them - businesses such as Yves St Laurent Rive Gauche and Selangor Pewter of Malaysia. Many of the successful international chains mentioned in the article are manufacturers that use franchising as their distribution channel.



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Other manufacturers such as Bally Shoes, Gucci and other fashion groups have dealership or distributor arrangements. All guarantee tied distribution. But, when retailers are resellers of other's products, a franchise in a foreign country makes a lot of sense.

Snippets

Coffee chain heavyweight Starbucks is currently embroiled in a fight over Ethiopian coffee-bean trademarks. Oxfam, a development charity, is claiming that Starbucks is depriving farmers in Ethiopia of \$90m a year. The company, however, believes that trademarking coffee beans might introduce legal complexities that will deter firms from buying trademarked beans, thereby hurting farmers instead of helping them

http://www.economist.com/business/displaystory.cfm?story_id=8355026

Although often blamed for childhood obesity, McDonald's is currently testing high-tech mini-gyms for kids at seven stores in the US. The gyms have are aimed at children between the ages of 4 to 12, and include stationary bikes with kid-friendly video screens to mini-basketball courts that electronically cheer players.

http://www.usatoday.com/money/industries/food/2006-12-04-mcdonalds-gyms_x.htm

China is about to get a taste of large scale, American-style toy retailing with the grand opening last week of the first mainland outlet of Toys "R" Us – just in time for Christmas!

http://www.thestar.com/NASApp/cs/ContentServer?pagename=thestar/Layout/Article_Type1&c=Article&pubid=968163964505&cid=1165574827710&col=968705923364&call_page=TS_Business&call_pageid=968350072197&call_pagepath=Business/News (Because of the length of the URL, you may need to cut and paste it into the address bar of your browser)

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IF Consulting publishes "Our View", a review of topical marketing channel issues. Samples are available on our website.

IF Consulting is a leading international marketing channel strategy consulting firm with over 35 years' experience in a vast number of industry sectors. See our website for further information.

<http://www.i-f.com>