THE BRITISH ARE COMING

It's undeniable that American franchises have worked well in the UK. But is cross-Atlantic franchising a one way street, or are UK franchises making inroads into the US? Ray Hays investigates

> "FRANCHISORS SHOULD ENSURE THAT THEIR CONCEPT IS WELL-TESTED AND ADAPTED FOR THE US MARKET BEFORE SELLING FRANCHISES"

During a recent client visit to London, I spent time at the Westfield Stratford City Mall. As an American franchise executive, U.S. franchise brands naturally catch my eye: Subway, McDonald's, KFC, Pizza Hut, TGI Friday's, Pinkberry, Fossil... and the list goes on. Back in America, it begs the question, why don't we see British franchises flourishing across the pond?

True, British franchise brands do not abound in the US. That said, over the past couple of decades, a number of UK franchisors have made inroads – or at least dipped their toes – into the American market. Their stories provide useful insights for other international franchisors, who might consider taking the plunge into the US.

RECENT UK FRANCHISOR ENTRANTS TO THE AMERICAN MARKET

FILTA

The Filta Group is a UK-based franchisor of environmental solutions for commercial kitchens, which began offering franchises in the US in 2002. Today, Filta has over 300 US franchise territories open – far exceeding their UK operations of 43 franchises and 20 company-owned units. Filta continues its strong US expansion with net increases of 25 territories annually in both 2016 and 2017, and ongoing growth into 2018.

Tom Dunn, COO of the franchisor's US arm, The Filta Group Inc., explains the company's decision to enter the US market. "Filta felt the concept would travel well from the UK into the American market, and our research showed a large number of commercial kitchens with an unmet demand for our services."

Filta opened its first US location in Florida in 2003 under an individual franchise. Although Filta offers master franchises in many international markets, they began in the US by selling individual franchises. Many franchisees acquired additional territories, and today about 65% of Filta's US franchise owners are multi-unit operators.

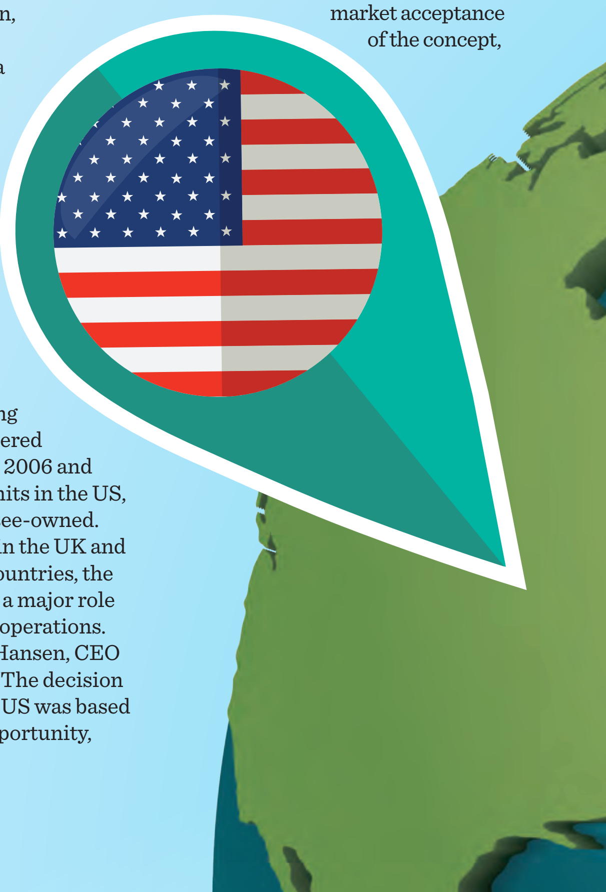
A key to Filta's successful US market entry was their emphasis on the support of their early franchised units. According to Dunn, "Focusing on our initial markets in Florida, Filta invested the time, people and resources to get our first US franchisees off to a good start. This early attention and hand-holding paid off for the long-term success of our US franchising program."

INXPRESS

UK-based global shipping franchisor InXpress entered the American market in 2006 and has since grown to 96 units in the US, all of which are franchisee-owned. With a further 95 units in the UK and 122 across another 12 countries, the US market clearly plays a major role in the company's global operations.

According to Dustin Hansen, CEO of InXpress Americas, "The decision of InXpress to enter the US was based on the size of market opportunity, common language and common business practices. We also had an established network of people to partner with in the US, who we knew and trusted. Finally, with established franchise regulations and a good franchise body (IFA), we felt US expansion was an easier first step in learning how to go global."

The first US InXpress pilot unit was set up through a company-owned master franchise. Hansen comments, "The three most important factors in the launch of InXpress into the American market were (1) creating a successful pilot to validate to candidates the uniqueness and market acceptance of the concept,



(2) getting involved in the franchise community to benchmark best practices, and (3) having a short and long term strategic plan and vision."

Hansen has words of advice for other franchisors: "Realize that the US is a big pond with a lot of franchise concepts fishing. Don't make the mistake of assuming that the size of the market means easy access and quick growth. It's also important to better understand the needs and cultural differences of the US market, which can vary widely by region."

GREEN MOTION

UK-based Green Motion is a car rental franchise, which is differentiated by an environmentally friendly fleet of vehicles. Because the US and Canada represent 50% of the global car rental market, Green Motion decided to enter the US market in 2013 under a master franchise in Florida.

The master franchisee was an existing small independent car rental company with 40 vehicles. By leveraging Green Motion's technology, distribution channels and existing European customer base, the Florida master franchisee expanded to over 2,700 vehicles today. This success story validated Green Motion's ability to compete in the U.S. rental market, and the company now has seven franchised locations with 4,600 rental vehicles in three U.S. states, with Texas coming on-line in 2019. Green Motion's franchise strategy is to offer master franchises on a state-by-state basis.

Lowden attributes two key factors to the company's successful U.S. expansion: "First, we have been fortunate in finding the right franchise investors in the U.S., which is critical for the stable growth. Secondly, our approach to the opening U.S. market is genuinely careful and slow, without taking major risks. American franchise investors don't want to see a franchisor that is here today and gone tomorrow."

On the issue of legal regulations and litigation risk, Lowden comments, "We entered the U.S. market with our eyes wide open. We understood the complexities of different franchise regulations across different States, and we've relied on the guidance of our American franchise legal advisors to ensure we avoid legal pitfalls."

H20 CAR VALET

Another UK car services franchisor in the American market is H20 Car Valeting, marketed in US under the "Valet Spa Car Detailers" brand. In the UK, their 17 high-end car valet sites are located in the car parks of 12 shopping malls, including the two Westfield Mall locations in London.

Keeping with a familiar location, H20 chose a Westfield Mall in the US as the site of Valet Spa's first pilot unit, which is company-owned. According to H20 Managing Director Ian Bolderston, "Our first U.S. Valet Spa center opened in Jan 2018 at Westfield Montgomery Mall near Washington DC. This highly successful pilot unit was a vital first step. It helped us to adapt the Valet Spa business model to the American market and provided proof of concept to move forward with future U.S. franchising."

In November 2018 Valet Spa opened a second company-owned location nearby at Tyson's Corner Mall in Virginia, and the company plans franchise expansion across the U.S. starting in early 2019.

CREPEAFFAIRE

London-based CrepeAffaire is a fast casual crepe café concept with 32 franchised and corporate-owned locations open or under development in the UK, The Netherlands, Kuwait and Saudi Arabia. CrepeAffaire recently announced plans to enter the U.S. in 2019 through a joint venture partnership.

According to Daniel Spinath, Founder and CEO of CrepeAffaire, "Part of our strategic decision to tackle the US was a matter of timing and market opportunity. Our research indicates that independent crepe cafes in the US attract wide appeal among American customers, yet there is no branded and systematic crepe cafe concept US chain with national coverage in the crepe cafe segment. Having fine-tuned our business model for nearly 15 years across four countries, we feel that CrepeAffaire is now ready to enter US and replicate our home market success by creating a disruptive category with a real cult following.

Spinath explains CrepeAffaire's reason for seeking a JV partner: "The massive size of the US market can be intimidating, diverse and complex. CrepeAffaire realizes the best opportunity for a successful US launch is to work with a successful American restaurant group partner, who will bring local market experience, food sector know-how and U.S.-based resources."

COMMON THEMES AND BEST PRACTICES FOR FRANCHISORS ENTERING THE US

The franchisors mentioned above are quite diverse in strategy and stage of development, but their stories reflect several common insights and lessons learned:

1 **Research the American market, customers and competitors –** Not surprisingly, each of the concepts mentioned above has a unique market niche and distinctive brand positioning. Common burger or pizza concepts would face significantly more competition in the US. Also, franchisors must carefully plan for the costs of US market entry and have a financial plan for long-term success.

2 **Start with a pilot to show proof of concept –** Franchisors should ensure that their concept is well-tested and adapted for the US market before selling franchises. This is best done by investing in a company-owned pilot unit, but a pilot may also be launched by US partners, who are backed up by a robust support commitment from the global headquarters.

3 **Dedicate US resources and have boots on the ground** – International franchisors must not underestimate the size, scope and diversity of the US market. The franchisor will need the guidance of franchise executives, attorneys and other advisors with deep experience in the US. These experts may be contracted part-time in early stages to reduce overheads.

4 **Understand franchise regulatory requirements** – Don't believe all the myths of US litigation and legal costs. If done right, the regulations are manageable and risks are minimal. That said, hiring a good US franchise attorney is a necessary investment to avoid very costly mistakes down the road.

See box top right by US franchise attorney Carl Zwisler of Gray Plant Mooty.

LEGAL CHALLENGES WITH FRANCHISING IN THE US

"With all of those franchise disclosure and registration requirements and the amount of franchise litigation in the US, franchising there is unreasonably expensive and risky." That is the myth that has restrained many qualified franchisors from seriously considering entering the lucrative US franchise market.

Here is what many foreign franchisors do not understand: Although franchise sales are regulated by the Federal Trade Commission and fourteen states, the disclosures required are nearly identical. To the extent that states impose different disclosure requirements from the FTC's requirements, they are addressed by the use of a 1- or 2- page state addendum. Once franchise agreements and FDDs are prepared, the incremental cost of registering in a state that requires it is about $2500. Most franchisors do not initially offer franchises in all registration states. Experienced franchise lawyers can tell you how much preparation of required documents and obtaining registrations will cost and how long the process will take.

According to a recent study of 2489 franchisors' FDDs, 54% of franchisors had experienced no franchise litigation, and another 16% reported only one lawsuit over the previous ten years. 88 of 165 (53%) of franchisors with 500 or more units reported five or fewer lawsuits over the previous ten years. Only seven franchisors with 1000+ units reported 50+ franchise lawsuits over 10 years.

ABOUT THE AUTHOR

Ray Hays is Managing Partner of FranLaunch USA, a management firm that facilitates US market entry for international franchise concepts. www.franlaunchusa.com