



# Retail Franchising: The next BRIC thing?

By Brendan Dorrian

IN THE CASE OF ALL EMERGING MARKETS, THE QUESTIONS SHOULD NOT BE WHETHER INDIA, CHINA, BRAZIL, OR RUSSIA ARE BETTER PROSPECTS THAN A DOMESTIC MARKET, BUT WHETHER THE ULTIMATE RETURN ON INVESTMENT WILL BE BETTER ABROAD THAN AT HOME. THE QUESTION IS WHETHER THE PERFORMANCE WITHIN THE DOMESTIC MARKET HAS ALREADY BEEN FACTORED IN.

→ The retail spotlight is shining once again on Mother India, as the world's retailers, media and commentators descend on Mumbai for the India Retail Forum.

A common fallacy among retailers is to imagine that just because India is delivering high economic growth, and has the largest English-speaking population in the world, it is sure to deliver strong returns. Fortune favours the brave, as the saying goes, but the brave often go first and that's not always the best time. The essence of any retailer's investment decision has to be the incremental revenues that will be generated, proportionate to the opportunity cost of the management and capital resources deployed; for India, and other emerging markets, the returns have to be forecast over a minimum five years, arguably 10 years, for the investment decision to be seen in its true context.

Several factors are already emerging which suggest that while some retailers are engaging emerging markets, others are steadfast in their refusal to engage the opportunity. Some retailers have already entered India, been bloodied by the experience, and shut up shop. The bookmark sectors of luxury and grocery are expanding with the presence of international brands. Burberry is expanding and so are Tesco and Wal-Mart. The main battleground, the elusive mid-market apparel business, is yet to unfold.

The cost of delivering profits, how much is invested to create a single dollar of profit, is accelerating in emerging markets but will likely trail mature markets, at least for the next two decades. The essential risk for retailers is acceptance of the format at local level and the Rubicon is shareholder patience with an

investment timeline far beyond the traditional.

All of this points to franchising and joint venture scenarios as a viable route to market. It's the closest thing to Capex-free growth that any retailer will find, but what are the essential decision-making criteria when considering the franchising or joint venture route to market? To be sure, it's never about a prospective franchisee's wealth; in international franchising, money doesn't talk.

We have extensive experience in enabling retailers to migrate from their domestic market to new markets worldwide, and we have distilled years of experience and advice offered to retailers into these four key criteria that a franchisor and franchisee must consider before embarking on serious exploration of a market and search for a franchise partner. They are market differential, consumer relevance,

supply chain and partner fit.

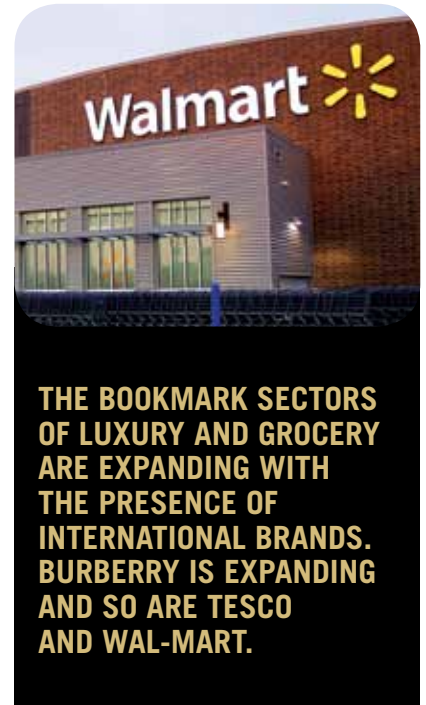
Market differential is arguably the most important factor for a retailer to consider; simply put, will their retail format differ to a significant degree from what is already on offer? Joseph M Juran is most famous for his work on quality control and quality management, alongside his giving voice to the Pareto Principle, or the 80-20 rule; however, he also made the telling statement - and I paraphrase - that, the best market in which to operate is the one that you create for the products that you're selling. And so the market differential that a retailer offers should be so substantial that it effectively creates an all-new market sector.

Consumer relevance comes next; simply put, are they buying, or will they buy, what you're selling? This is where a strategic long-term view of the market is essential; and we're not talking a single season, or even two, or a year for that matter; no, this is about a full five-year time line, minimum, for the consumer base to engage with the retailer and the product offer. The retailer has to know the consumer, anticipate their needs and strategise to address them.

Supply chain challenges come third in this series of four critical criteria.

With a global supply chain predicated in Asia, and with an RMB artificially supported by the Chinese government, all retailers face an uphill task to get their product over the border at a price that makes competition with local retailers realistic. The grey market, such as the one that exists in Russia, for instance, is not an option for credible retailers and must be avoided at all costs. Similarly, Brazil and India all have onerous import tariffs that serve as a protectionism mechanism which, in our view, serves domestic manufacturing do nothing to accelerate the pace of growth within modern retailing. Supply chain requires serious number crunching, detailed market analysis and a long hard look into the distance.

Fit, the last of four; not the first, the last. Simply put, is the prospective franchisee 'likeminded'? Wealth is important but not essential - although any franchise agreement where growth is wholly funded from cash-flow will never fly - and so also is retail experience, which does not have to be within the specific sector that the franchisor operates. More important is experience within retailing, experience of managing the legislative and operational expertise required simply to open the doors



**THE BOOKMARK SECTORS OF LUXURY AND GROCERY ARE EXPANDING WITH THE PRESENCE OF INTERNATIONAL BRANDS. BURBERRY IS EXPANDING AND SO ARE TESCO AND WAL-MART.**

every day. Did you know that it takes some 67 separate licences to open a supermarket in India? I don't know that it does, exactly, but your partner should.

So, what will this year's India Retail Forum deliver? Under Bijou Kurian's chairmanship, an illustrious line-up of speakers has been gathered, actually the best that I've seen in three years of travelling to India to attend conferences, and so I have high hopes for the two days. Retail leaders in India are hugely impressive, none more so than in the way they conduct themselves at *IMAGES Retail* events. They are approachable, they make themselves available to the media and delegates alike, they appear on multiple panel sessions; in short, they take the time, their time, to contribute to the success of the conference, to the future growth of retailing in India.

Mother India: She's a lioness, not a princess, so treat her with the respect she deserves! ❌



**ABOUT THE AUTHOR**



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