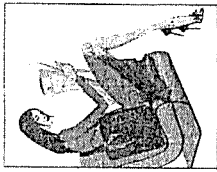


DEVELOPMENT This type of business plan is still rare in Europe

Conquering foreign markets through master franchising



François-Xavier Bournaud

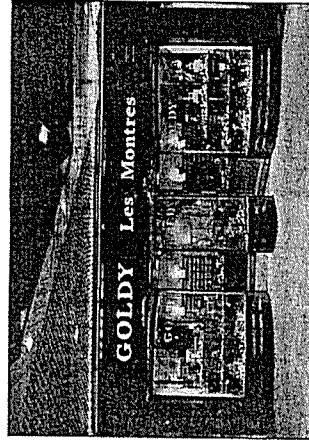
For companies which have a solid base in their domestic markets, international expansion seems like an essential path to growth. Several approaches to conquering foreign markets are available, one of which is the master franchise system. This is an international development system which involves giving an independent entrepreneur, called the main franchisee or master franchisee, the exclusivity for the development of a chain in a country," says Olivier Cast, Parisian lawyer and specialist in franchising and international trade. This main franchisee, or master franchisee, has "the right and obligation" to develop the chain's concept through sub-franchising or franchises once it has paid an initial fee and then by paying royalties to the owner of the chain. The average contract duration is twenty years.



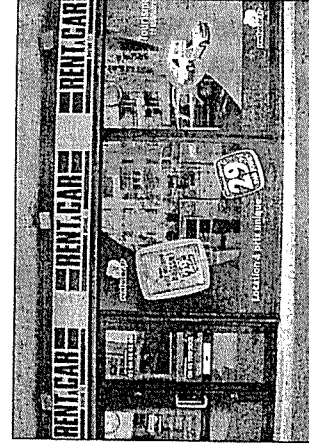
From left to right, a few examples of chains which developed successfully through franchising: Franck Provost, Goldy Les Montres and Rent-a-car. (DR)

There are three parties involved in this system. First, the franchiser, who owns the chain. Next, the master franchisee who buys the rights to use the brand in a given country. Then there are the "sub-franchisees" who buy the rights to use the brand from the master franchisee. According to Olivier Cast, this system benefits from three development levers: "financial, marketing and human."

In financial terms, the master franchisee reduces the costs of conquering a market. The master franchisees, through the start-up fees which they pay, bear some of the costs for development of the concept, for marketing and for recruitment of franchisees. The establishment



The concept must then be adapted to the local market, and that is where the marketing lever comes in. The master franchisee can draw on the experience of the chain, while enriching it. This part is not so easy. As Olivier Cast says: "The master franchisee runs a risk because there is no guarantee that the concept can be



repetition of a success." Whence the lack of recognition from public authorities which many franchisees regret. While this system limits risk taking, it also "gives small businesses the means to develop which they might not have outside of a network," according to Pierre Normand. "The income from subsidiaries is certainly higher but franchisees allow for more rapid development of the network and thus greater visibility over a shorter period of time."

After double-digit growth in

Trophies for franchisees

For the tenth consecutive year, the European Club of Network Directors (CEDRE)

awarded trophies to the best director of a franchise network and the chain which had the highest growth rate in 2002. In the first category,

CEDRE granted the award to Jean Lavaupot, director of ERA Immobilier, a network of real estate agencies.

The chain has been present in France since 1993 and now has 230 agencies. Last year,

Jean Lavaupot opened 48 new agencies in France. He expects that the network will grow to 250 agencies this year.

Chains which have received this trophy in recent years include Franck Provost

for hairdressers, Athlete's Foot for sports stores

and Speedy for automobile services.

The perfume chain Beauty Success, which won the trophy for the highest growth rate,

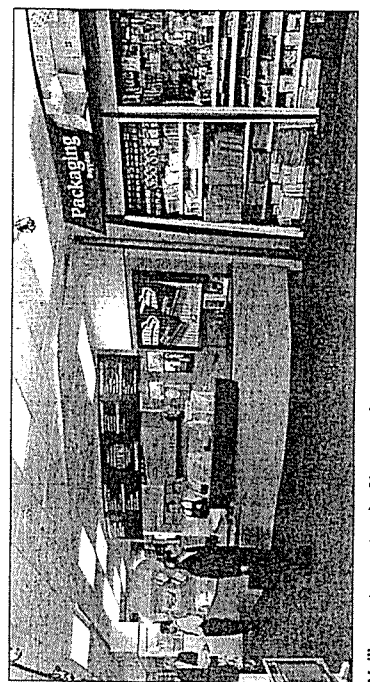
practically doubled its number of stores last year. Led by its

director Didier Mareil, the network added 47 new stores last year. It now has 84

franchisees.

Five US chains seek to develop their international networks

Mailboxes etc., an American-style franchise



After the US and Brazil, France has the third largest franchising sector

French franchising lacks recognition

are not eligible for government aid which is available to independent entrepreneurs.

Beyond the essential initial investments needed to open a franchise business, it is true that the risks are not as great

The sector now employs close to 450,000 people

as for people starting independent companies. The franchisee is supported by the "three pillars of franchises," i.e., the concept, a brand and know-how. As Pierre Normand

Another advantage is that this system allows chains to accelerate their development. The initial investment to open a store, restaurant or hotel is made not by the franchiser, but by the owner of the chain, but by his franchisee. "Companies are developing more and more mixed networks, with subsidiaries and also with franchisees or branches," says Pierre Normand. "The income from subsidiaries is certainly higher but franchisees allow for more rapid development of the network and thus greater visibility over a shorter period of time."

The food sector has the largest number with 5428 people, just ahead of the equipment sector (5047 people), hairdressers and beauty parlors (4067 people). Among the large franchise brands in France there is the Carrefour group, the European supermarket leader, which had 37

franchisees in 2001.