

NOT MAKING THE CUT

It's every retail entrepreneur's dream: making it big in the land of the red, white and blue. But the reality for many Australian brands is that the US market is far harder to crack than it might seem. Even household names such as Bakers Delight have had to pull out of the US after disastrous results. Amber Jamieson takes a look at why this is the case and what to do to flourish on US shores.



WHEN iconic Australian bakery chain Bakers Delight opened its first US store in Seattle last year, it was seen as the start of something big. Media reports hyped up the franchise company's plan to roll out 10 bakeries in Seattle and 100 throughout the US within 12 months, building up to a total of 5000 bakeries in just a few years.

Yet just 18 months later, the three Bakers Delight stores in Seattle have quietly closed and the US market is no longer the company's big dream. As Richard Taylor, chief financial officer and company secretary of Bakers Delight admits, "the experiment didn't work".

It's no real surprise that Australian companies are keen to cross the Pacific. With a population of more than 300 million, an easily understandable and identifiable culture, a friendly US-Australia Free Trade Agreement and a consumer-driven society, the US seems like an obvious choice for international expansion.

But Bakers Delight joins a long line of Australian companies that have either withdrawn from the US market or are encountering far less success there than expected. The list includes domestic big-names such as Country Road, Barbeques Galore and Flight Centre. While each of these companies had their own individual problems and outcomes, a common theme is developing.

Why is it that Australian expansion into the US so often fails? What are the difficulties facing Australian businesses, and in particular franchisors attempting to enter

the US market? Is it the current economic climate that's to blame?

Not at all, argues Adrian McFedries, managing director of DC Strategy, a specialist business consulting firm that deals in strategy, franchising, international and legal help. In fact, in regards to franchises, "it can be argued that the current conditions are actually advantageous to new entrants – those facing economically difficult circumstances will certainly be looking for ways to improve their longer term prospects," he says.

There are no hard statistics on the number of Australian businesses, franchises or not, that have entered the US market and failed. But there is much anecdotal evidence suggesting that Australian businesses in the US failed for reasons unrelated to the environment of the country, according to McFedries. Businesses "misunderstand how to enter the market, how to resource the market, how to localise business", says McFedries. This is particularly important in the US where regions and states can differ dramatically. What works in New York City may not work in Austin, Texas, for example.

For Bakers Delight, the fact that the only obvious competitors were supermarkets was expected to be an advantage. Instead, supermarkets proved to be their biggest downfall. "Consumers were very convenience-related" says Taylor, "There are very few independent fresh food retailers there, as we would be familiar with in Australia. If and when we go back into the US, we'll have to think about maybe a

different model or maybe a different part of the US depending on what the local retail dynamics are like".

It seems a lack of planning is far more detrimental to companies trying to break into the US market than an individual country's traits. By not having detailed knowledge of the US market – including knowledge of legal, planning and business regulations – and attempting to make an Australian model fit the US market without adjustments, has left several prominent Australian businesses struggling or unable to turn a profit there.

Australian company Barbeques Galore first opened a store in the US in 1980. It experienced early success – so much so that it split off its US arm into a stand-alone entity in 2007. However, on August 15 2008 Barbeques Galore USA filed for Chapter 11 bankruptcy and it is expected the business will be sold or liquidated.

Fashion retailer Country Road famously closed down more than 20 stores in the US in 2001 and that year announced losses of \$3m

Likewise, travel agency giant Flight Centre has a messy history with the US market. It closed its US stores in 1991 before eventually reopening them in 1999. However, the profit in the US are nowhere near as high as those from the Australian and UK markets, and McFedries describes their US growth as "slow and steady". Flight Centre bought the US travel agency, Liberty Travel, in 2007 to help concentrate on the retail side of the US business, which had been losing money for several years.



Entering any overseas market is difficult and it is not just the US where Australian companies face difficulties. Expectations are often higher for the US than other countries – the bigger economy suggests bigger profits to be made. But several Australian companies, including Bakers Delight, have experienced much greater profitability in smaller markets such as Canada and New Zealand.

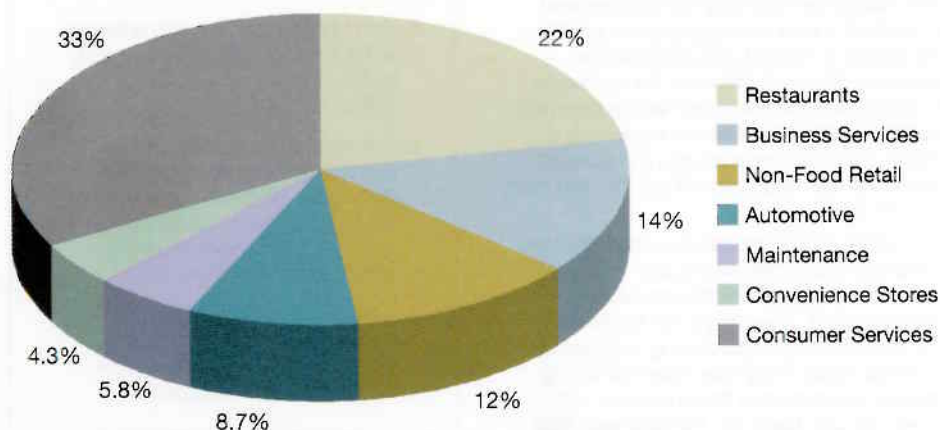
Michael Hill Jeweller, a New Zealand company with a majority of stores now in Australia, recently purchased 17 US stores – mostly in the Chicago, Illinois area – from the Chapter 11 bankruptcy of Whitehall Jewelers Holdings. It is the company's first attempt at the US market, after having strong success in Canada.

But it seems it's not only a one-way street. US companies entering the Australian market via franchising are also struggling to survive. Research from DC Strategy over the last 15 years shows that just 10 per cent of US franchise systems succeed in Australia within two years of entering, a very similar figure reversed for Australian franchisors.

So what's the advice for those considering a shift to the US? An overseas expansion is not a decision that should be made lightly. Austrade offers advice and helps for Australian businesses attempting to expand overseas. The US Commerce Service (<http://www.buyusa.gov/australia/en/>) also has workshops and advice for Australian businesses wanting to enter the US market.

Business owners should also consider their motives for wanting to branch out into fresh shores. McFedries explains that wanting to make a quick buck is the most direct route to failure. Instead he suggests that "patience, preparation and perseverance – all of which take time" is the best way to avoid a Bakers Delight-style ending.

FRANCHISING IN THE US BY SECTOR



US CHECKLIST

Businesses contemplating international expansion must meet three "non-negotiable's":

1. Substantial profitability and cash flow – this is necessary to fund the development of the models, systems, agreements and other foundational requirements before reasonable returns can be enjoyed.
2. Substantial market position – the offer, systems, procedures, infrastructure are well defined and "locked down" and not still in major development.
3. Availability of a key senior manager – a senior executive must be released from the Australian business to focus on building the international business – simply adding the international role to an Australian manager will mean both roles are performed sub-optimally.