FRANCHISING FROM THE U.S. TO CANADA – AND BACK AGAIN

How franchisors can make the most of these two leading markets

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It's commonly known that the U.S., arguably the creator of the franchise model as we know it today, is the largest and most developed franchise market in the world. Statista estimates that there are roughly 773,603 franchise establishments throughout the country, outputting a total economic value of $787.5bn.

Perhaps lesser-known, however, is that North America's neighbor to the North holds the title of the second-largest franchise market, with an estimated 1,300 unique brands currently operating throughout Canada.

"Canada has more U.S. brands operating than any other country in the world, because of our proximity and similarity," says Edward (Ned) Levitt, CFE, a partner at Dickinson Wright LLP. "It's a trust that the U.S. knows franchising. The expectation is that you're going to get what you pay for if it's a U.S. brand. A brand coming in from France, for example; there wouldn't be the confidence that the French franchisor really knows how to franchise in Canada or North America."

Familiarity can be a trap

Hold off on making that international development call for just a moment. While Canada's franchise market is highly receptive to U.S. brands, and many of the States' biggest names have continued to find success in the North, to consider Canada simply yet another American state would be a mistake. As with any international expansion, heading from the U.S. into Canada requires plenty of planning and preparation to avoid cross-border pitfalls.

"While I love the idea of brand growth, I typically don't recommend crossing the border either way until the home market is maximized," says Angela Coté, a franchise growth catalyst with many years' experience in franchise development. "While it is tempting to simplify the concept of crossing the border, there are so many costs and uncertainties involved.

"A mistake I see time and time again is the franchisor not using a concentric growth strategy. What happens is that they get a unit opened in a market like southern Ontario, and the next thing you know they get interest from an eager prospect in Western Canada. The offer seems too good to refuse and they go ahead and sign the agreement. Soon after, because of the expansiveness of the country, the franchisee in Western Canada in the isolated market feels alone and unsupported, and struggles as they are starting from scratch to build brand awareness."

Preparedness creates prosperity

Like the U.S., Canada comprises a number of regions, namely provinces and territories, which are separate jurisdictions. These provinces and territories are akin to the states in the U.S., across which franchise regulation can vary, as can culture and trends.

"Franchise regulation in Canada is, for better or worse, somewhat self-regulated," says Andrae J. Marrocco, a partner at McMillan LLP. "There are six provinces that have provincial franchising legislation, but there is no regulatory body (or bodies) that monitor or enforce compliance with those franchise laws; it is entirely up to each of the parties to enforce their own rights. Moreover, there are no federal franchise laws in Canada, there are no registration requirements, and some U.S. franchisors find that uncomfortable. Also, you don't just update your FDD once per year. In Canada, the FDD must be up to date each and every time it's issued to a prospective franchisee."

U.S. franchisors may also assume that Ontario is the key market they must target first, because of its density and positioning as a central hub for business in the country. After all, the province is home to 56 per cent of franchise headquarters in the country, and 65 per cent of all Canada-based franchise outlets operate in this market. As it turns out, though, these figures should not come before a carefully planned entry strategy.

"While Ontario is by far the most densely populated province in Canada, I would always recommend entering a market where the best master franchisee partner is and where the best market is for your brand," says Coté. "If you have a well-vetted, rockstar prospect who thoroughly checks off all the boxes and they are in what appears to be the right market based on research, there is a better chance for success than just choosing an area because of density."

A more direct route

Interestingly, despite the journey from the U.S. into Canada being an international one, many franchisors are opting for direct franchising when crossing the border – not something you'd commonly see when entering a new regional market.

"A high majority of my clients are looking at direct franchising because they feel that they can service their franchisees from the U.S.," says Marrocco. "A fitness concept out of Rochester, New York, utilizing all custom proprietary equipment, gets it all on a truck and brings it to Canada because of the proximity. If you're a restaurant, however, and there's a lot of supply chain nuances that need to be addressed, then master franchising may be the preferred choice of franchise structure."

Master franchising hasn't always been a surefire path to success in Canada though, and this has led franchisors to sometimes consider alternative routes.

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"In the past, the franchisor was relying on the master to know the market that they're going in to, and to make changes that needed to be made. 20 years ago, we had a lot of failures, because the franchisor left too much down to the master franchisee," says Levitt. "In the last 10 or so years, what we're finding is that more franchisors are not going the master route and instead considering multi-unit franchising. More are realizing the benefits of multi-unit; they would give a multi-unit operator a sizable territory in the target country, but there would still be the franchisor/ franchisee relationship."

With all of this taken into consideration, the experts are still confident that there is prosperity to be found by U.S. franchisors heading North: "Any U.S. franchisor who has domestic success, does their research, has sufficient capital and patience – their chances of success in Canada are great," says Levitt.

Avoid assumptions

Despite the U.S. and Canada appearing similar on paper, it would be a mistake to take all of the above information and simply flip it, assuming that it could be utilized by Canadian franchisors heading into the States. While the close proximity of the two countries benefits brands taking the leap, there are still many considerations that need to be made before formulating an entry strategy.

"From a cultural perspective, while Americans reap the benefits of cross-border brand awareness, it doesn't always work the other way around," says Coté. "What I mean by this, is that probably mostly through the media, we Canadians often get exposed to American concepts, so by the time a U.S. franchise enters Canada, there's a good chance there has already been some brand awareness built up. When a Canadian franchise enters the U.S., we are often starting more from scratch."

Starting from scratch isn't always a bad thing, of course. For the right franchisor, this blank slate can be an attractive prospect. It allows seemingly limitless growth – just as long as a proper market strategy is put in place. After all, as Bill Edwards, CEO of Edwards Global Services puts it: "U.S. consumers are very open to international concepts and trying new things. You have to test your brand, but there's rarely any pushback."

Opt for multi-unit investment

One of the first things that Canadian franchisors need to understand about franchising in the U.S. is that it's a huge, complex market. By sheer land mass Canada is equally large, but America's many jurisdictions and region-specific regulations can prove tricky to the uninitiated.

"The U.S. Department of Commerce says that there are 16 different economic regions in the U.S. and they do business differently in some States," says Edwards. "In fact, there are 16 States that have different franchise regulations. It's important to look at those when you're coming into the country."

Because of this complexity and size, Edwards recommends that franchisors entering from Canada always opt for multi-unit franchisees over single-unit investors. This is because of their increased capital and manpower, but also due to the fact that entrepreneurs or groups looking to invest in multiple units will undoubtedly already have experience in franchising. They will understand both the logistics of the business model itself, but also how a brand can fit into the nuances presented by a specific demographic or market.

The latter point is particularly notable in the States compared to Canada, because competition is increased dramatically.

"I think one of the big things you need to be ready for is that there are far more competing brands in each sector, than there would be in Canada," explains Edwards. "If you look at homecare, there are 50 franchise systems that are considered worthwhile. In Canada you may have three or four, or 10 at the most. That's a huge challenge that brands find when they come to the U.S., and they don't take that into account and do their market research ahead of time to see whether they're really differentiating or not. If they're more of the same, it's going to be difficult to find franchisees."

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Be mindful of the market

When it comes to choosing your entry point in the U.S., the consensus among the experts is that almost every state is ripe for development for the right kind of brand. However, two states stand out as being tricky for first-time developers: California and New York.

"California has the joint-employer problem and they're slowing down applications for any new franchises or renewals," says Edwards. "New York just doesn't want new businesses to come in. They want to keep what they've got, and so their regulations are tough. If you're going to come into this country, I would suggest not coming into those two as your first location."

The ongoing joint-employer debate in California basically boils down to whether franchisors can be held liable for a franchisees' employees, and has the potential to open franchisors up to many legal troubles that could be avoided by simply omitting the state from growth plans. This would be a shame, though, because the Sunshine State has such a ripe franchise market. As such, very careful planning should be undertaken if this is to be part of a brand's entry strategy.

This also opens up the Pandora's box of litigation in the States, which is a leading fear among international brands looking to enter the country. While the threat of litigation is a very real one, some believe that it's no more likely in the U.S. than with other global markets: "Expansion and growth of any kind includes expanded possibilities of litigation, and knowing and adhering to the laws at the federal and state level is key to avoiding this," says Red Boswell, president of IFPG, a franchise consultancy. "It is important for franchisors to align with a reputable franchise attorney to help navigate the sometimes confusing regulations and ensure their paperwork is filed on time."

Strength in numbers

This brings us to the main reason Canadian franchisors should use the U.S. as their first step into international growth: community. Because the franchising model is so engrained into U.S. business culture, countless events and support groups have been established to support both domestic and foreign brands when navigating the country's quirks and hurdles.

"There's a huge sense of community within the industry and we get together every chance we get to collaborate, share best practices, and network," says Boswell. "If you wanted, in non-COVID times, you could attend several franchise events every month – from conferences to trade shows and more. With pent-up demand, we're going to see a surge in U.S. get-togethers once COVID is behind us."

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