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Exporting: Fries with that?

A Canadian fast-food chain continues to expand east -- the Far East.

By Calvin Leung
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Entrepreneur Jay Gould's first foray into the Far East didn't make him rich, but it did make him wiser. New York Fries, the Toronto-based fast-food chain he co-founded with his brother in 1984, licensed its concept to a franchisee in Korea during the late '90s. Gould appreciates that tastes differ between cultures, but says his foreign partner constantly tried to water down a concept designed to work internationally. "The South Koreans are an honourable people, but they are determined to do it their way or get their point across," he says. Making matters worse, Gould learned the franchisee wasn't as rich as he believed.

New York Fries still has four stores in Korea, but needs at least two more to buy efficiently and have a notable market presence. Looking back, Gould says, "Don't believe everything people tell you. In general, there are lots of people with big hats and no cattle out there."

Gould, though, appears to have learned his lesson. A licensee in the United Arab Emirates has opened nine stores since 2002, with plans to launch three more before Christmas. That company is well funded and has diligently followed the franchise agreement. "We're so very excited about our development there, amused even that something with a name like New York Fries can work anywhere in the Middle East," Gould says. He's also planning to open stores in Hong Kong and Macau, and maybe even mainland China eventually.

Carefully vetting foreign partners isn't the only way small and mid-sized businesses can improve the chances of an international expansion succeeding. For example, companies should ensure they can easily handle domestic demand before looking abroad. This frees up time and resources for the extensive homework needed on foreign opportunities, says Justine Hendricks, a regional vice-president at Export

Development Canada. EDC's website offers guides to countries such as India, China and the United States, as well as a primer on exporting.

Companies should also not overlook their own people as a resource. "Employees from some of the foreign markets you're looking to enter can give you a better understanding of the cultural differences," Hendricks says.

Understanding a country and a company's potential there will determine how best to enter the market. Although a huge opportunity may justify the cost of opening a foreign office, most SMBs typically use either a distributor or an agent that works on commission. To vet partners, Gould has visited the operations of possible foreign franchisees. Since his Korean experience, he's also tweaked his franchise agreement to demand more money upfront, and included a financial incentive to build half a dozen stores.

Still, Gould points out that you can sometimes spend more time and money scrutinizing an opportunity than it's worth. "It's not like we're Home Depot moving into mainland China. We're limited in our resources, and we have to rely an awful lot on the goodwill of our franchisees and gut feel," he says.

Nevertheless, business owners can limit their financial risk. One of the biggest concerns of exporters is not getting paid. For SMBs, such losses can be catastrophic. But companies can buy Accounts Receivable Insurance from the EDC (or private insurers) as protection. The product lets businesses receive up to 90% of the value of goods if a customer refuses to pay, or something disrupts the supply chain, such as an outbreak of war in a foreign country or a cancellation of trade permits. The cost of ARI varies according to payment terms, the nature of the product or service and the creditworthiness of the buyer, but typically range between 1.2% to 2% of the value of the export for small businesses. "We're not the cheapest or the most expensive, but we offer personalized service through our underwriters, and we stick around in good times and bad," says Hendricks.

Despite its risks, expansion isn't just about dollars and cents for Gould. Of the 18 people in his office, more than half have visited exciting parts of the world and learned about different cultures. "They've gotten to see some amazing things with a stupid little potato in their hands, and for a relatively small business like ours, that's pretty cool," he says.