



# International Expansion Strategies: Choosing The Right Approach



International Summit  
Moderated By: Carl E. Zwisler  
Speakers: Ned Lyerly and  
Thomas F. Flaherty  
Monday, February 14, 2011

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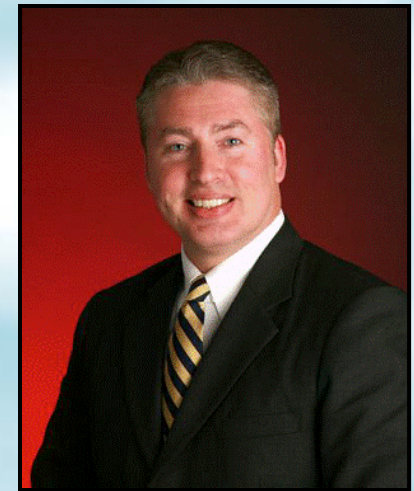
# Ned Lyerly

- Executive Vice President, Global Franchise Development - CKE Restaurants, Inc.
  - International Division
  - International and Domestic Franchise System Growth
  - International and Domestic Franchise Real Estate Support
- 27 year multi-functional background including international, operations, finance, marketing, franchise support, real estate and franchise sales
- Chairman of the International Affairs Committee at the International Franchise Association
- 5+ Million Miles on American Airlines



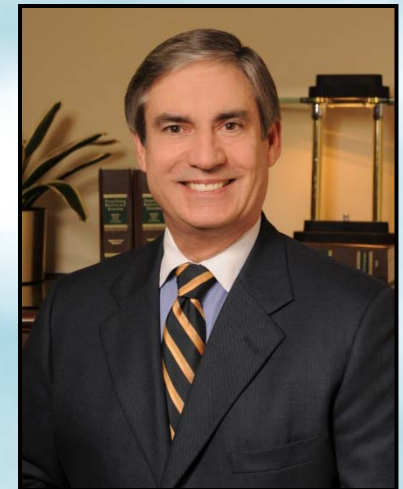
# Thomas F. Flaherty, CFE

- Vice President, Franchising, Agile Pursuits Franchising, Inc., a Procter & Gamble Company
  - responsible for franchising for the Tide Dry Cleaners and Mr. Clean Car Wash brands
- 23 years of legal and franchising experience
  - Papa John's International, Inc.
    - Vice President, Global Franchising
    - Vice President, New Business Development
  - Huddle House, Inc.
    - Chief Development Officer
- Managed the signing of franchise deals for over 2,000 units on five continents



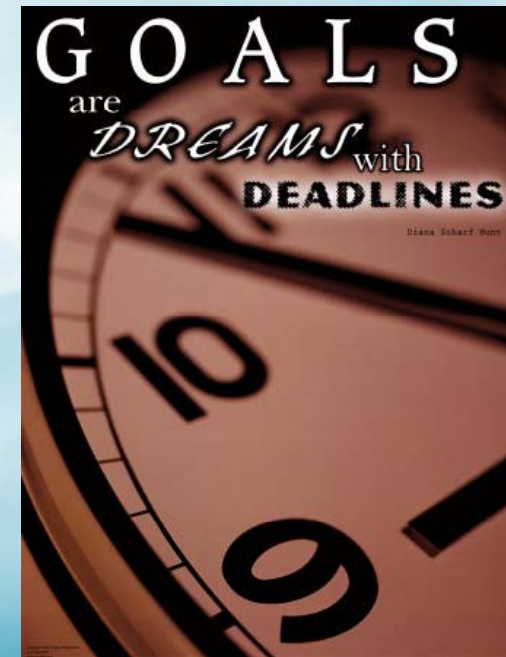
# Carl E. Zwisler

- Principal, Gray Plant Mooty
- 35 years representing franchisors and master franchisees in domestic and international franchise transactions
- Former IFA General Counsel
- Author:
  - *Master Franchising: Selecting, Negotiating, and Operating a Master Franchise*, Commerce Clearing House, 1999
  - *International Franchising: A Practitioner's Guide*, chapter "Selecting a Format for International Franchising"
- Author/presenter of more than 100 articles and presentations on all facets of international and domestic franchising





# What Are The Right Goals For International Franchising?



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- Sell products or services to un-served “customers”
- Expand distribution of products or services
- Optimize return on investment and increase system-wide sales and generate incremental EBITDA
- Seize opportunities presented by qualified prospective franchisees



- Hedge against economic and political risks
- Obtain economies of scale
- Preempt competitors

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# What Are The Options For International Expansion Strategies?



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- Company branch
- Direct franchise: unit, area development, area representative
- Master franchise
- Joint venture
- Merger and acquisition

# Franchising Formats

## Area Development Franchising (multi-unit franchising)



Franchisor

grants



area developer

territory

**Franchise Unit 1**

By January 1,  
2012

**Franchise Unit 2**

By July 1,  
2012

**Franchise Unit 3**

By January 1,  
2013

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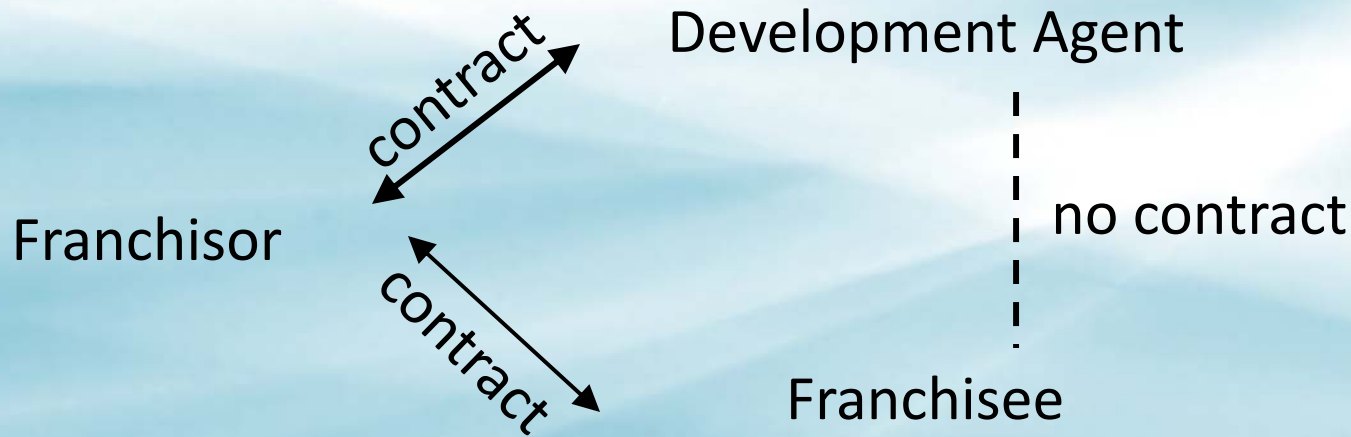
- Area development agreement provides:
  - Develop three units during next 12 months
  - Sign a unit franchise agreement for each

# Area Representative/ Development Agent Franchise



- 3 parties
  - Franchisor
  - Area representative or development agent
  - Unit franchisee

# Development Agent / Area Representative



# Example 1

## Master Franchising

Franchisor



Master franchisee



territory

**Franchise Unit 1**  
By January 1,  
2012

**Franchise Unit 2**  
By July 1,  
2012

**Franchise Unit 3**  
By January 1,  
2013



## Example 2

# Master Franchising Franchisor



Master franchisee



Territory

Master-  
owned  
Unit 1

Master-  
owned  
Unit 2

Franchise  
Unit 1

Franchise  
Unit 2

Area  
Developer

Schedule: open at least 1 every six months

Unit 1 Unit 2





# What Considerations Dictate The Strategy Selected For International Franchising?



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- Resources of the franchisor
- Cost of adapting
- Resources and commitment of prospective partners
- Regulation of foreign ownership or other government regulation
- Size and profit potential of a market



- Critical mass required to establish the brand or to compete effectively in the market
- Distance from the franchisor's home or regional support office
- Cost of establishing a franchised unit
- Tariffs, duties and other barriers to foreign ownership or operation
- Culture, language, climate, logistics, availability and cost of labor

# Where Are The Most Logical Markets To Begin International Expansion?





## Markets With:

- Desire/need for product or service
- Greatest numbers of areas with likely customers
- Proximity
- Common language
- Lowest risks of political and economic instability

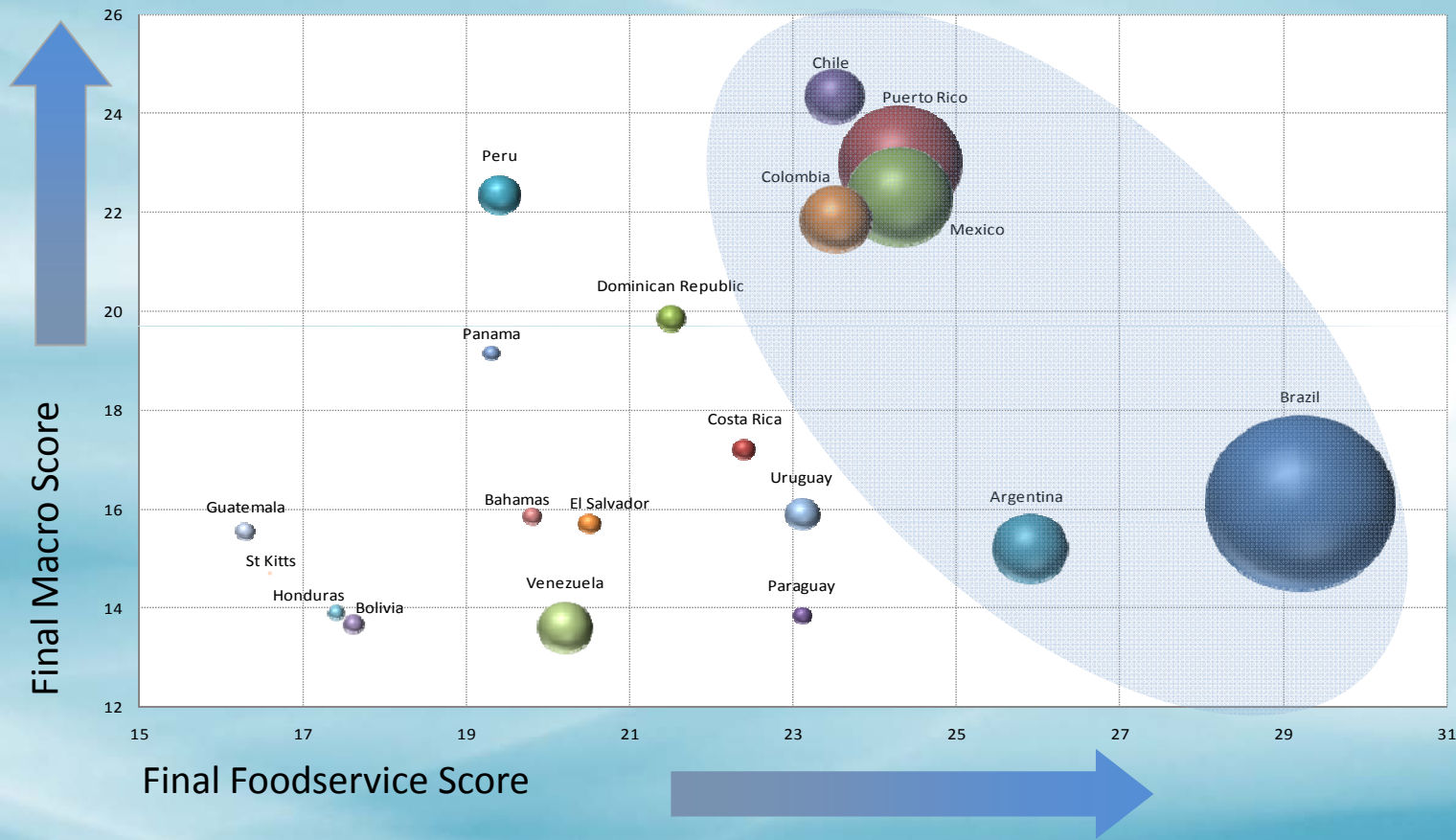


- High growth and qualified prospects
- Low effective tax rates
- High scores on World Bank's Ease of Doing Business survey
- No exchange controls and no barriers to currency repatriation



- Developed legal system allowing for enforcement of contracts
- Logistics/distribution/supply chain infrastructure cultural fit of product or service

# Market Matrix – Latin America



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# What Is Needed To Develop And Implement An International Franchising Plan?



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- Support from board, CEO and/or founder
- Buy-in from all departments which will support foreign development and operations
- International support organization (operations, training, marketing, supply chain/distribution, finance, I.T., legal)
- Substantial investments in time and capital
- Realistic time horizon for return and unit growth



- Threshold for patience in selecting the right franchisees in the right markets with the right positioning of the right products and/or services
- Legal analysis, documents, budget, IP protection
- Market research to understand probable costs of entering and developing a market



- Franchise marketing plan and budget
- Due diligence on prospective franchisees
- Identification of top priority markets
- Development of a franchising team with endurance and international business acumen/sensitivity



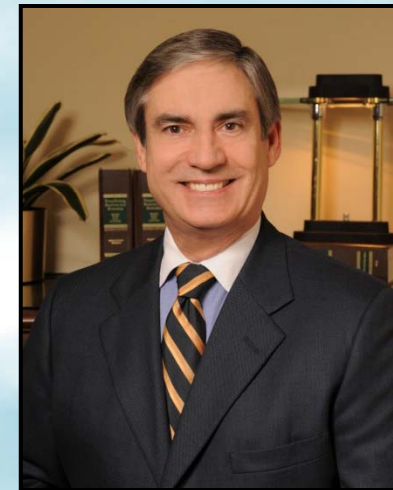
Thank you.



**Ned Lyerly**



**Thomas F. Flaherty**



**Carl E. Zwisler**

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