

Am I Ready for International Expansion?

MR. ROBERT F. TROTA

President, Max's Restaurant

President, Philippine Franchise Association

Master Franchisee of Krispy Kreme Doughnuts
in the Philippines

History of Max's in International Expansion



- **Motivating Factors**
 - The growing number of Filipinos in the USA prompted Max's to consider expansion opportunities in the USA.
 - Political environment : Death of Ninoy Aquino 1983 which started the “people power” in 1986

History

- **1982:** Max's San Francisco opened in West Borough and moved to South San Francisco in 1998.
- **1984:** Max's Los Angeles opened in Wilshire Blvd. and moved to Glendale in 1994.
- **1988:** Max's San Diego opened in National City and closed in 2003.*
- **1990:** Max's Cerritos opened and in 1999 the property was sold.

*Lack of management support and local knowledge

Lessons Learned

- **How to deal with local Authorities**
 - City requirements
 - Health Department
 - Community Relations
- **Investment Cost**
 - Study Investment Well
 - Financial matrix in the Phils. may not apply

Lessons Learned

- **Insurance**
 - High Insurance cost
 - Workman's Compensation
- **Turnover**
 - High turnover of personnel for both skilled & non skilled
- **Immigration**
 - Management
 - Skilled personnel

Am I Ready?



- **Areas of Consideration:**
 - How strong is your brand locally and internationally?
 - Max's strategy was and still is to target big Filipino markets in the USA (as of 2004, 3.6 m Filipinos, 60% in Ca.) since we already have existing stores and somewhat familiar with the market

Am I Ready?



- Maximize the recognized brand name of Max's with Filipino Americans (FilAm) which will help introduce our brand to the mainstream market.

Was Max's Ready?



- **With 20 years of experience and store operations in the USA, Max's decided to franchise in 2003**

What Did We Do?



- Prepared a feasibility study & Business Plan on Franchising in the US in 2000
- Looked for experts and consultants: Francorp and Cencir

What Did We Do?

- **Decided on Joint Development Franchise Agreement & Area Development**
 - Lack of organization & personnel due to immigration concerns

What Did We Do?

- **Found right local partners/franchisees**
 - Shared vision and desire for success
 - Access to local market knowledge, resources, network, and organization.

Was Max's Ready?

- **In 2003:** Max's West Covina
- **In 2003:** Max's Vallejo
- **In 2004:** Max's Sacramento
- **In 2006:** Max's Hawaii
- **In 2007:** Max's Las Vegas
- **In 2007:** Max's New Jersey



Max's West Covina



Max's Vallejo

Examine Internal Conditions

From Dr. Bob Justis

- **MANAGEMENT DECISION**
 - Readiness and commitment to go international
 - Appropriate commercial method to use
 - Training of an international management team
 - Appropriate business plan and an export strategy



Examine Internal Conditions

- **MARKETING (Key)**
 - Adequate market research to identify prime markets
 - Acceptability of product or service.
 - Customization of products or services.
 - Appropriate marketing programs for the foreign market

Examine Internal Conditions

- **FINANCIAL**
 - Financial capacity to invest in international operations.
 - Availability of and access to financing and bank loans in the foreign country.

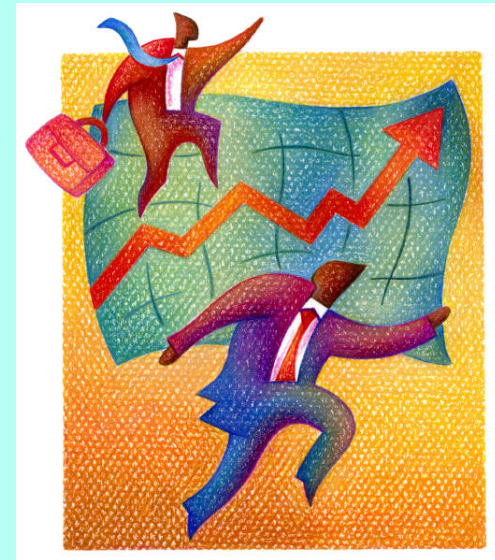


Examine Internal Conditions

- **OPERATIONS**
 - Production, logistics and inventory management issues
 - Distribution network
 - Partnerships with relevant suppliers
 - Determine if there is a need to set up an overseas office.

Examine Internal Conditions

- **PROFITABILITY AND LONGEVITY OF INT'L OPERATIONS**
 - Calculate sales and profit potential
 - Determine expense & cost estimates
 - Assess potential return of investment



Analyze External Environment

- **LEGAL AND TRADE ISSUES**
 - **Government requirements (foreign ownership, trademark licenses, competition provisions)**
 - **Currency and remittance (conversion rates and procedure for remittance)**
 - **Supply and distribution (product availability, import restrictions, distribution network)**
 - **Fees (type of fees, taxes)**

Analyze External Environment

- **LEGAL AND TRADE ISSUES**
 - **Immigration Concerns (It is important to look for a reputable law firm in the host country to help you on this).**

Am I ready?

Analyze External

Environment

- **ECONOMIC CONSIDERATIONS**
 - Level of disposable income
 - Industrial structure
 - Political environment

Analyze External Environment

- **MARKET PROFILE**
 - Current market potential
 - Target market
 - Future market

What structure is best

- **Direct Investment: Establish company-owned outlets**
- **Master franchise agreement**
- **Joint development agreement**
- **Joint venture agreement**
- **Licensing**

What structure is best

- **Direct franchising**
 - Direct unit franchising
 - The establishment of a branch office or a foreign subsidiary
 - Development agreements
 - * A Consultant will provide the best help for your brand. It will cost money but based on experience, it is well worth it.

How and When to adapt?

- **IDENTIFY TARGET MARKET**
 - Cater to a niche market
 - Go for the Mainstream market



How and When to adapt?

- **KNOW AND STUDY THE MARKET**
 - Size, Demographics & Demand
 - Lifestyle & Trends
 - Culture

How and When to adapt?

- **DETERMINE PRODUCT STRATEGIES**

(Know the taste & preferences of your target market)

- **Product line**

- Offer the same product
- Modify and localize products
- Introduce new products

- **Menu portioning**

- **Product design or packaging**

How and When to Adapt?

- **CHANGE PRICING STRUCTURE**
 - Consider cost of operations, shipping costs and export-related fees.
 - Check out competitors' prices

How and When to Adapt?

- **ESTABLISH BRAND PRESENCE IN THE MARKET**
 - **Get the best sites/locations**
 - **Put more outlets to build a strong brand name**
 - **Create marketing and promotional activities**

How and When to Adapt?

- Check out existing competitors' profile
- Find & get the right local partner with knowledge and skills. Ask to present a business model.
- Consult with the affiliated franchise association of the country
- Seek consultants' advice and expertise

Am I Ready for International Expansion?

Thank You!



MR. ROBERT F. TROTA
President, Max's Restaurant
President, Philippine Franchise Association
The Real American Doughnut Company



Philippine
Franchise
Association