

IFA



®

INTERNATIONAL FRANCHISE ASSOCIATION

Franchising

Building local businesses,
one **opportunity** at a time.

TOPIC OF TODAY'S SESSION

International Expansion Strategies



52nd Annual Convention
February 11-14, 2012 | Orlando, FL



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PANEL



Leonard N. Swartz
Senior Advisor
iFranchise Group, Inc.
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- ❖ 49 years associated with franchising and as member of the IFA
- ❖ Senior executives of several small and International Franchise companies over 10 years World Wide Managing Director for Franchising clients with International Accounting and Consulting firm.
- ❖ Worked on Franchising projects in over 45 countries
- ❖ Board of Trustees IFA Educational Foundation
- ❖ IFA International Committee
- ❖ Board member of Rosenberg International Franchise Center

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Yoshino Nakajima,
Chief Development Officer
Home Instead Senior Care
ynakajima@homeinsteadinc.com

- ❖ Responsible for the worldwide expansion for Home Instead Senior Care
 - ✓ 950 offices in 17 markets worldwide.
 - ✓ Double digit revenue growth
 - ✓ Projected 2012 Revenue of 1B Dollars
- ❖ Member of IFA International Affairs Committee
- ❖ Board member of Rosenberg International Franchise Center

PANEL



Scott Chorna
Director, International
New Business Development
FOCUS Brands, Inc.
schorna@focusbrands.com

- ❖ Responsible for global new market development for full QSR portfolio of 5 brands
 - ✓ Auntie Anne's Pretzels
 - ✓ Cinnabon
 - ✓ Carvel Ice Cream
 - ✓ Moe's Southwest Grill
 - ✓ Schlotzsky's
- ❖ Former General Manager of Sino-US Joint Venture for leading US QSR brand owner
- ❖ Lived and worked overseas for 13 years in 3 different major Asian cities

AGENDA

- Determining your goals for international expansion.
- What are the options for expansion strategies?
- Where are the most logical markets to begin an international expansion?
- Developing and implementing the plan

Determining your goals for international expansion

What do you want to achieve by expanding internationally?

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DETERMINING YOUR GOALS FOR INTERNATIONAL EXPANSION

- Emotional Motives
 - We want to be a global company/brand
 - Desire for international travel

DETERMINING YOUR GOALS FOR INTERNATIONAL EXPANSION

- Financial Motives
 - Receive large up-front fee for franchise rights
 - Increase overall sales and profits through fees and royalties

DETERMINING YOUR GOALS FOR INTERNATIONAL EXPANSION

- **Strategic Motives**

- Protect market (copy cats)
- Increase name recognition
- Diversify your company's revenue stream and protect against economic issues at home
- Protect against competition

What are the options for expansion strategies?

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OPTIONS FOR EXPANSION STRATEGIES

- Direct Investment
 - Company Owned Operations
 - Joint Venture
 - Acquisition of existing business
- Franchising
 - Direct Franchising
 - Area Representatives
 - Area Developers
 - Master Franchise
 - With or without sub-franchising

OPTIONS FOR EXPANSION STRATEGIES

- **Joint venture**
 - Formed between the franchisor and another party
 - The joint venture becomes the franchisee
 - The franchisor signs the franchise agreement with the joint venture partnership



OPTIONS FOR EXPANSION STRATEGIES

- **Company Owned Stores**

- Advantages:

- Full control
- Higher possible return
- Easy exit if necessary

- Risks:

- High capital investment
- Need for local management and representation on ground
- Full legal exposure
- Possible tax issues

- **Joint Venture**

- Advantages:

- Local partner support in navigating local regulations
- Can open “own” (JV stores) as well as franchise from JV to others

- Risks:

- Large investment costs
- Need to work with partner
- More difficult exit if necessary

OPTIONS FOR EXPANSION STRATEGIES

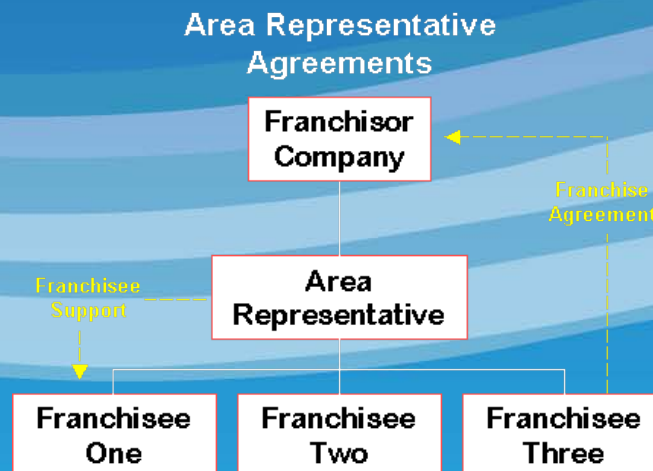
- Direct Franchising
 - Near home market
 - Similar language/economic market place
 - Agreement will be similar to US franchise agreement
 - Typically used by large, mature franchisors that require large initial investment



OPTIONS FOR EXPANSION STRATEGIES

- Area Representative Agreements

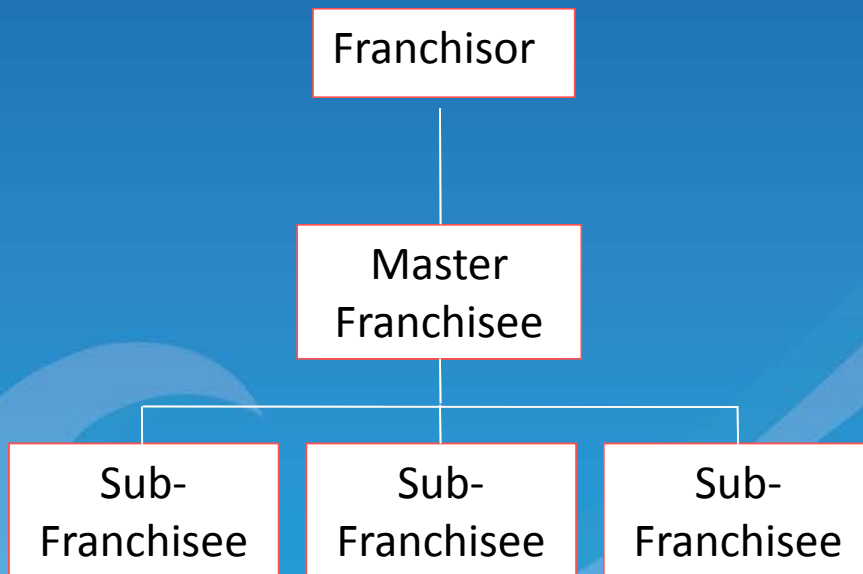
- Direct contractual relationship between Franchisor and Franchisee
- Area Rep provides support in place of Franchisor, for a fee paid by Franchisor



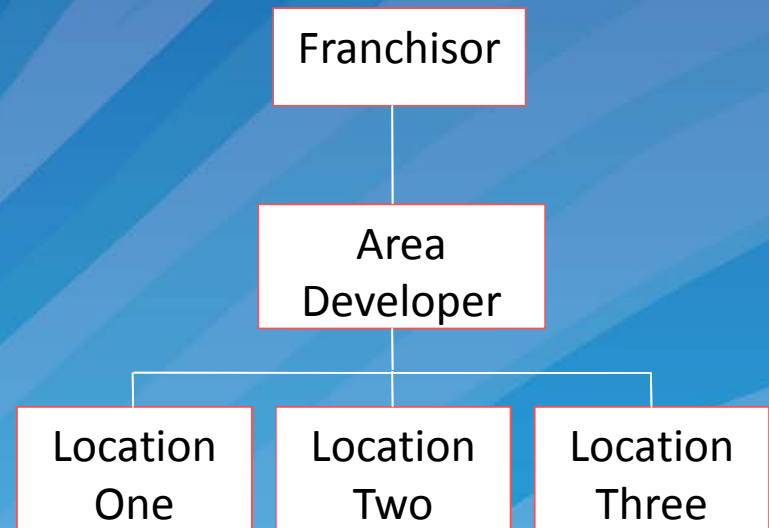
OPTIONS FOR EXPANSION STRATEGIES

Two Most Common Structures for International

Master Franchise

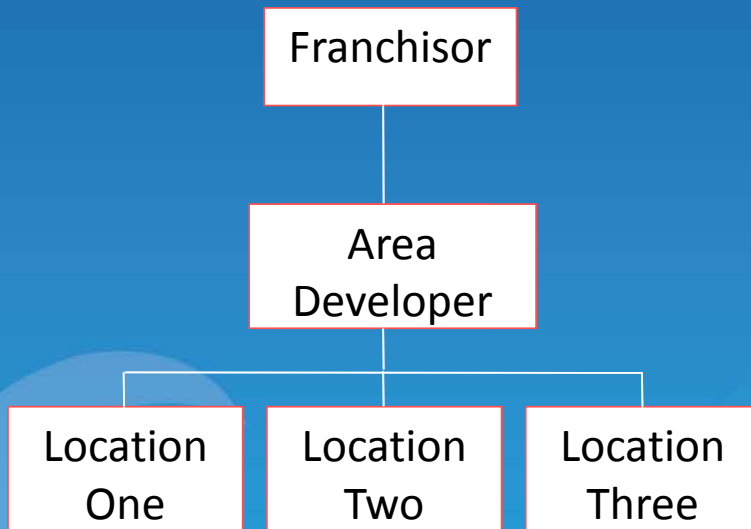


Area Development Agreement



OPTIONS FOR EXPANSION STRATEGIES

Area Development Agreement



- Franchisor grants right to develop a defined Territory
- Area Developer to own and operate all own units
- No right of sub-franchising

OPTIONS FOR EXPANSION STRATEGIES

Area Development Agreement

– Advantages:

- More substantial from personal & financial point of views
- Larger commitment by area developer
- Sharing of financial rewards by two
- Lower investment
- Higher control than with Master

– Risks:

- Higher cost factor; more operational involvement
- More involvement of franchisor (depending on number of area developers)
- Loss of opportunity to develop territory in any other way for the development period

OPTIONS FOR EXPANSION STRATEGIES

Area Development Agreements are like an option agreement for a single operator to open multiple units...

Advantages of an Area Development Strategy

- Rate of unit growth can be faster provided area developers meet their development schedules.
- Experienced multi-unit owners may be strong operators and require less support from the franchisor.
- Existing multi-unit operators of other systems are easily identified.

Disadvantages of an Area Development Strategy

- The market to attract qualified multi-unit operators is highly competitive among franchisors seeking to expand.
- More than half of all area developers fail to open the number of locations called for in their development agreement.
- If problems develop with an area development franchisee, their territory can remain undeveloped as issues are resolved.
- Larger area developers can command a high degree of power within a franchise system.
- Rate of growth can, paradoxically, be slower in circumstances in which a slow development schedule supplants aggressive franchise marketing

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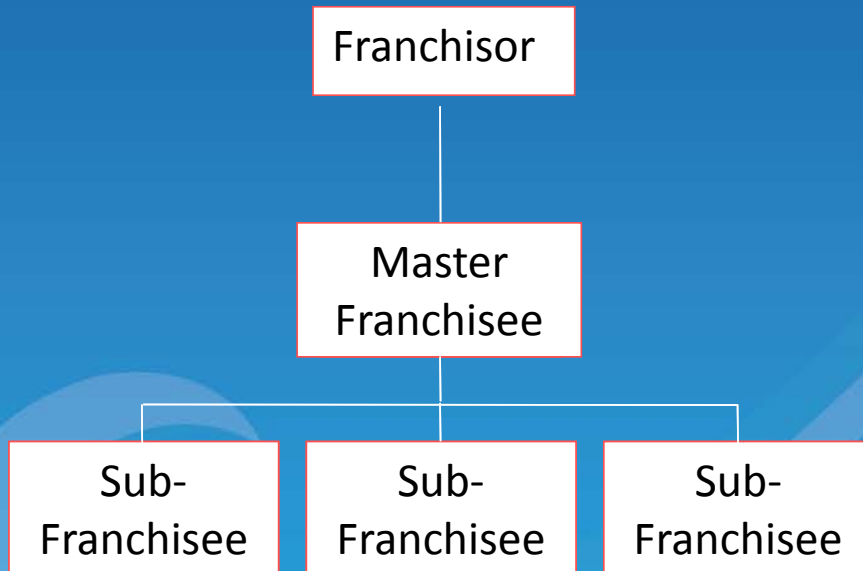
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OPTIONS FOR EXPANSION STRATEGIES

Master Franchise



- Franchisor grants right to develop a defined Territory
- Master Franchisee to own and operate some units
- Master has right of sub-franchising
- Master to support sub-franchisees as “franchisor” in the market

OPTIONS FOR EXPANSION STRATEGIES

Master Franchise Agreement

– Advantages:

- Master takes on negotiated responsibilities
- Local knowledgeable presence
- Lower investment for franchisors
- Less personnel resources

– Risks:

- Give up control; may not be able to stop abuses
- Harder to control unit standards
- Termination problems
- Financial rewards split 3 ways; must be win-win-win for all

A TYPICAL SUB-FRANCHISE STRUCTURE

- Franchisee typically pays
 - Franchise fee average about \$25,000 - \$35,000
 - Royalty range between 4% - 10%
 - Advertising range between 1% and 2%
 - Responsible for following the system
- Sub-Franchisor typically provides
 - Sells franchises
 - Provides initial training and support
 - Ongoing supervision
 - Collects fees
 - First responsibility for Quality Control
- International Franchisor typically
 - Provides Operations Manuals and systems
 - Take a Country-Specific Fee for the rights to develop
 - Trains and Supervises the Sub-Franchisor
 - Shares in all fees
 - Sells Product or provides network of approved suppliers
 - Enforces Performance Requirements
 - Provides Trademark & Shares in Quality Control Responsibilities

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OPTIONS FOR EXPANSION STRATEGIES

Master Franchise Agreements are most frequently used in international franchising. . .

Advantages of a Sub-Franchise Strategy

- Rate of unit growth can be fastest, provided Master Franchisees meet their development schedules.
- Designed so that franchisees require less support from the franchisor.
- Good structure for international markets, where direct control by (and contractual relationships with) the franchisor would be cumbersome or impossible.

Disadvantages of a Sub-Franchise Strategy

- Low contractual control (contracts are with Master).
- Low operational and quality control.
- If problems arise with Master, significant problems can occur with franchisees, as there is no direct contractual relationship.
- Fees split between Franchisor and a “middle-man” (Master Franchisee) require higher levels of royalties or lower profits.
- If a true Master structure is used, and franchisees sign their Franchise Agreement with the Master, then each Master must have their own UFOC document.

DETERMINING YOUR GOALS FOR INTERNATIONAL EXPANSION

Where are the most logical markets to begin an international expansion?

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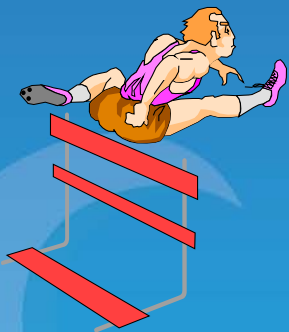
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Determining your goals for international expansion

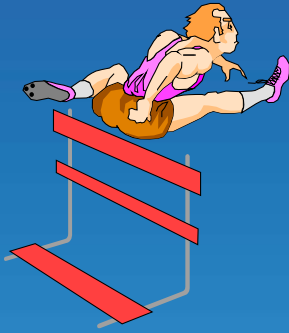
Identifying Countries for Expansion

- ❖ Do your US experiences offer insight ?
 - Franchisees? Clientele? Geography? Suppliers?
- ❖ Have you received requests from abroad?
- ❖ Have you done your homework ? What sources are available?
- ❖ What market criteria matter for your brand entry?
- ❖ How do you determine the “ripe” markets, what is the prioritization and at what rate do you plan to grow?
- ❖ Do your competencies match the target countries selection?

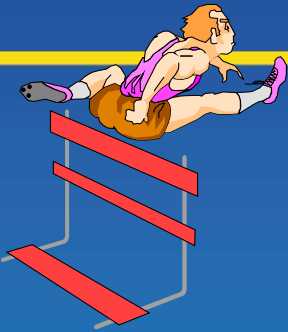
BARRIERS TO ENTER FOREIGN MARKETS



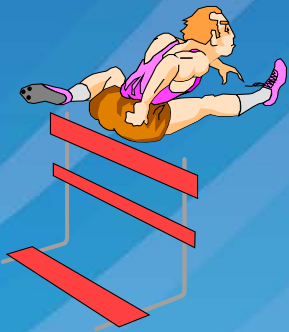
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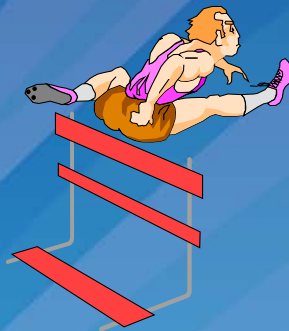
Language



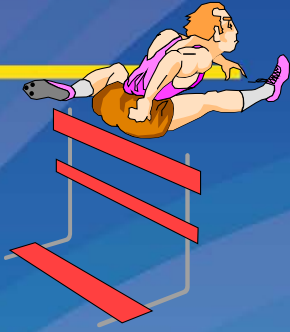
Resources



Marketing



Political



Customs

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WHAT ARE THE MOST LOGICAL MARKETS TO START

- Items to consider
 - Geographical Proximity
 - Size of market and opportunity
 - Markets in which your product/brand/concept already have a market for
 - Ease of doing business, franchise laws
 - Markets in which you receive inquiries

WHAT ARE YOUR MOST LOGICAL MARKETS TO START

- Gather as much information as possible
- Create a chart and use as a guide

EGS' GlobalVue™: Overall International Market Ranking

Country/Region	Expected 2011 GDP Growth	Market Size (Customers)	Legal Concerns	Ease Of Market Entry	Ease Of Starting A Business	Political Risk (Stability)	Overall Ranking
Brazil	1	1	2	2	3	1	1.7
Hong Kong	1	4	1	2	1	1	1.7
Saudi Arabia	1	2	2	2	2	1	1.7
Singapore	1	4	1	2	1	1	1.7
Urban China	1	1	2	2	2	2	1.7
India	1	1	2	3	3	2	2.0
Indonesia	1	1	3	2	3	2	2.0
Poland	1	2	3	2	2	2	2.0
Viet Nam	1	2	2	1	4	2	2.0
Australia	2	2	2	3	1	1	1.8
Colombia	2	2	2	2	2	1	1.8
South Africa	2	2	2	1	2	2	1.8
Chile	2	3	2	2	2	1	2.0
Mexico	2	1	2	2	2	3	2.0
South Korea	2	2	3	2	1	2	2.0
Turkey	2	2	2	1	3	2	2.0
Middle East Region/GCC	2	2	2	2	3	2	2.2
Philippines	2	2	2	2	3	2	2.2
Thailand	2	2	2	2	2	3	2.2
Malaysia	2	2	3	3	3	2	2.5
Russia	2	2	4	3	3	3	2.8
USA	3	1	2	1	1	1	1.5
Japan	3	1	2	2	1	1	1.7
Scandinavia	3	2	2	1	1	1	1.7
United Kingdom	3	1	2	2	1	1	1.7
Canada	3	2	2	2	1	1	1.8
Germany	3	1	2	3	1	1	1.8
New Zealand	3	4	1	1	1	1	1.8
Czech Republic	3	3	2	2	2	2	2.3
Spain	4	1	2	2	1	1	1.8
Ireland	4	4	1	2	1	1	2.2
Italy	4	2	2	2	2	1	2.2

Country Ranking: 1 Is good, 2.5 Is fair, 4 Is worst

Sources: 'The Economist', EIU, Heritage Foundation, World Bank, Fraser Institute, World Economic Forum, EGS GlobalTeam™ in 30 countries

WHAT ARE YOUR MOST LOGICAL MARKETS TO START

Costly Mistakes to Avoid

- ❖ The Opportunity: “We just got a call from Raj in India...”
- ❖ Organization:
 - Neglecting to identify the resources needed to succeed: capital, legal, staffing, supply chain, training, travel and others
 - Not investing the time and resources toward developing a realistic plan
 - Plan for each country...match your resources to the task

WHAT ARE YOUR MOST LOGICAL MARKETS TO START

Costly Mistakes to Avoid

- ❖ **Selection of Franchisee:**
 - **Recruit – don't sell!**
 - **Beware of “investor only” sign ups**
 - **Not performing full due diligence – know your partner**
 - **Being ‘one more’ in a stable of brands**

WHAT ARE YOUR MOST LOGICAL MARKETS TO START

Costly Mistakes to Avoid

- ❖ **Staffing:**
 - Thinking that brand knowledge trumps international expertise
 - Not being involved in the “key manager” hiring decision
- ❖ **Commitment:** Assure your organization is ready to fully support your program

DETERMINING YOUR GOALS FOR INTERNATIONAL EXPANSION

Developing and implementing the plan

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DEVELOPING AND IMPLEMENTING THE PLAN

Questions to Ask Before Committing to an International Development Strategy?

- ❖ Do we understand the commitment that is required in terms of time, resources and people?
- ❖ Is our product or concept well suited to international markets?
- ❖ Does our management team have any experience outside our home country?
- ❖ Have we completed a thorough business plan?

DEVELOPING AND IMPLEMENTING THE PLAN

Checklist Prior to Going International

- ✓ Ownership commitment to international development
- ✓ Designate an internal champion who will focus on your international strategy
- ✓ Business plan identifying your intended strategy and resources
- ✓ Preliminary list of targeted countries
- ✓ International lead generation strategy
- ✓ Initial trademarks filed in targeted markets
- ✓ Franchise attorney with strong international experience
- ✓ A plan to educate your team on their responsibilities

Developing and Implementing the Plan

The strategy you select may depend on

- ❖ Which countries you wish to develop
- ❖ The nature of your concept or the industry in which you operate
- ❖ The rate of expansion that you desire
- ❖ The capabilities that exist within your company
- ❖ The resources that are available to you
- ❖ The types of candidates that exist within your targeted countries

DEVELOPING AND IMPLEMENTING THE PLAN

- Customs
- History
- Economics / Cost of Entry
- Local competition
- Political Climate
- Economical Climate
- Consumer Behavior
- Distribution Supplies
- Labor Pool
- Marketing
- Service Costs
- Legal Issues
- Trademark and Trade Name
- Appropriate Franchise Format
- International Taxation
- Domestic Taxation
- Cash Transfers
- Contract Terms

Franchising A Business Strategy that is Changing The World



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Q&A

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